Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach

PART I: A Strategic Perspective

June 30, 1997

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Rewarding, Organizing and Managing People for the 21st Century:
Time for a Strategic Approach
June 30, 1997

Office of the Assistant Secretary of Defense
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CHAPTER 1
STRATEGY FORMULATION IN THE DEPARTMENT OF DEFENSE TODAY

> No military task is of greater importance than the development of strategic plans which relate our revolutionary new weapons and force deployments to national security objectives. Genuine unity is indispensable at this starting point. No amount of subsequent coordination can eliminate duplication or doctrinal conflicts which are intruded into the first shaping of military programs.
>
> *– President Dwight D. Eisenhower* [1]

> Strategy is not just about deciding which wars we will fight but about navigating our way to our desired objectives in the future and relating our present actions to the future outcomes we hope to achieve.
>
> *– The Honorable Paul Wolfowitz* [2]

. . . strategic emphasis . . . may be an area where the department can benefit from emerging practices used in other successful organizations.

The Department of Defense is generally recognized as having one of the most well-developed planning processes of any organization, public or private. Although the process is well-developed, the strategic emphasis, in the broadest sense of the term, within the process may be an area where the department can benefit from emerging practices used in other successful organizations. This section briefly describes the overall process in the department [3] and highlights those areas where greater strategic emphasis may be useful. It provides the foundation for the following major points:

- The Department of Defense could use human resource management policies and practices as a “strategic lever” to improve its organizational performance – that is, to better accomplish its mission, vision and corporate goals. This would place the department solidly among those world-class organizations that are recognized as being on the leading edge of strategic human resource management.

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[1] *Message to Congress*, April 3, 1958; quoted in Commission on Roles and Missions of the Armed Forces, *Directions for Defense*, Report of the Commission on Roles and Missions of the Armed Forces to the Secretary of Defense (Washington, DC: U.S. Government Printing Office, May 24, 1995), p. 2-2.

[2] “Statement of Paul Wolfowitz for Senate Armed Services Committee Hearings on Defense Strategy,” Washington, DC, February 7, 1995.

[3] This section sketches the current strategy formulation process in DoD (which will already be familiar to many readers), based primarily on official departmental publications. The references cited below contain more detailed descriptions of that process but are sometimes slightly inconsistent with each other. This planning system is dynamic and continually evolving. In particular, a number of changes in the system have occurred in the past several years, including development of the Chairman’s *Joint Vision 2010*. Further changes are likely as the department responds to the requirements of the Government Performance and Results Act of 1993. Hence, any summary necessarily simplifies or omits many aspects of how the process currently operates in practice.

- A strategic approach involves examining such fundamental issues as what business the organization is in or should be in, what it should look like in the future in order to survive and prosper in its expected environment, and how it should get from where it is today to where it believes it needs to be in the future.
- As it operates today, the department's strategic approach often seems to concentrate primarily on the programming phase of the planning, programming and budgeting system, with little explicit attention to addressing fundamental questions about the department's future environment, role and direction.

. . . the department's strategic approach often seems to concentrate primarily on the programming phase . . . with little explicit attention to addressing fundamental questions about the department's future environment, role and direction.

In response to the requirements of the Government Performance and Results Act of 1993, the Defense Planning Guidance for fiscal years 1998–2003 stated, for the first time, the strategic plan for the Department of Defense, including the department's mission, vision and six corporate goals. The President and the Secretary of Defense provide the general context for military strategic planning in the department through the National Security Strategy and its implementation guidance. The Chairman of the Joint Chiefs of Staff, as the principal military adviser to the President, the National Security Council and the Secretary of Defense, presents his views on national strategy and policy to the National Security Council during the formulation process. He also presents the views of the other members of the Joint Chiefs of Staff and of the combatant commanders. [4]

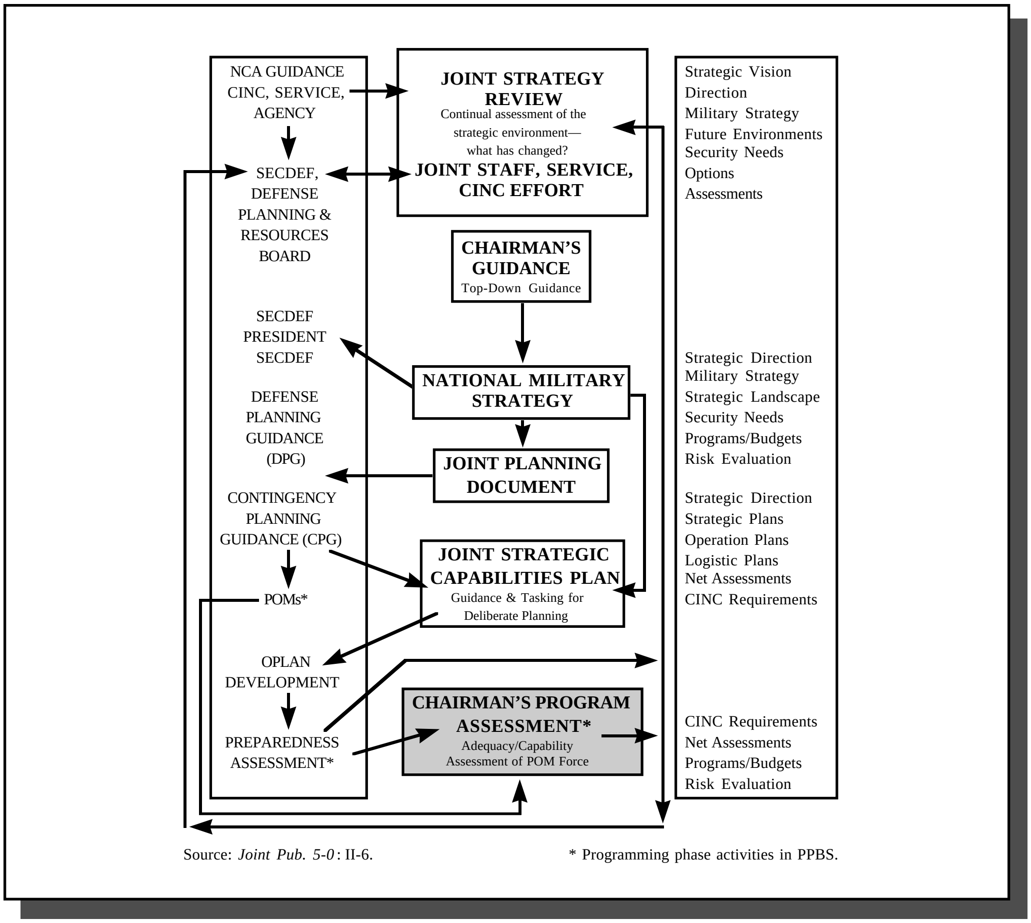
Based on the National Security Strategy and its implementation guidance, the Chairman then develops the National Military Strategy in coordination with the other members of the Joint Chiefs of Staff. [5] The National Military Strategy contains the Chairman's recommendations to the President and the Secretary for the department's support of the national security objectives, including the fiscally constrained force structure required to accomplish those objectives. To formulate the National Military Strategy, the department currently uses two interrelated systems: the Joint Strategic Planning System and the planning phase of the planning, programming and budgeting system. [6] Figure 1 shows a notional view of this planning process and its linkages to the subsequent programming phase.

---

[4] U.S. Joint Chiefs of Staff, *Joint Pub. 5-0, Doctrine for Planning Joint Operations* (Washington, DC: U.S. Government Printing Office, April 13, 1995), p. II-1–2; and U.S. Joint Chiefs of Staff, *Joint Pub. 3-08, Joint Doctrine: Capstone and Keystone Primer* (Washington, DC: U.S. Government Printing Office, May 25, 1995), p. 45. According to an internal assessment performed by CALIBRE, the 1995 National Security Strategy document was only minimally coordinated with DoD during development of the strategies of engagement and enlargement.

[5] Prior to 1992, the CJCS produced the classified *National Military Strategy Document*, which contained relatively specific strategic objectives, assumptions, and priorities. The JCS no longer produces an equivalent document; the unclassified *NMS* does not address specific strategic objectives, assumptions, and priorities. See Douglas C. Lovelace, Jr., and Thomas Durell Young, *U.S. Department of Defense Strategic Planning: The Missing Nexus* (Carlisle Barracks, PA: Strategic Studies Institute, U.S. Army War College, September 1, 1995), pp. 13-14.

[6] U.S. Joint Chiefs of Staff, *Joint Pub. 5-0*, p. II-2.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CINC, SERVICE, AGENCY
SECDEF, DEFENSE PLANNING & RESOURCES BOARD
SECDEF
PRESIDENT
SECDEF
DEFENSE PLANNING GUIDANCE (DPG)
CONTINGENCY PLANNING GUIDANCE (CPG)
POMs*
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Strategic Plans
Operation Plans
Logistic Plans
Net Assessments
CINC Requirements
CINC Requirements
Net Assessments
Programs/Budgets
Risk Evaluation

Source: *Joint Pub. 5-0*: II-6.

* Programming phase activities in PPBS.

Figure 1 – The Joint Strategic Planning System

The planning phase that leads to the National Military Strategy begins with the JCS Joint Strategy Review, which is used to gather information and raise strategic issues. [7] At the conclusion of the Joint Strategy Review process, the Chairman provides his recommended strategic priorities and policies to the Secretary and the President in the Chairman's Guidance. [8] Following review by the Secretary, the President considers the Chairman's recommendations and makes his strategy and option decisions. The Under Secretary of Defense for Policy then incorporates those decisions in the *Defense Planning Guidance*, which he develops in coordination with the Chairman, the combatant commanders, the services, and the Defense Planning and Resources Board.[9] The *Defense Planning Guidance* is the principal planning document of the planning, programming, and budgeting system and is the Secretary's authoritative statement that directs defense policy, provides military strategy, establishes force and resource planning guidance, and provides fiscal guidance to the services for developing their respective Program Objective Memoranda (POMs).[10]

---

[7] The objective of this planning phase is to identify threats to U.S. national security interests, "develop the strategy necessary to meet national objectives, and determine the forces required to carry out the strategy." See U.S. Department of the Air Force, Air Education and Training Command, Air Command and Staff College Associate Programs, "The A-B-Cs of the PPBS," *Seminar and Correspondence Lesson Book*, Vol. 5, Lesson 20, Reading 1 (B Block, Lessons 18–22, Academic Year 1995), (Maxwell AFB, AL: Air University, n.d.), pp. 20-22; and U.S. Department of the Air Force, Air Education and Training Command, Air Command and Staff College Associate Programs, "Jointness in the PPBS," *Seminar and Correspondence Lesson Book*, Vol. 5, Lesson 20, Reading 6 (B Block, Lessons 18–22, Academic Year 1995), (Maxwell AFB, AL: Air University, n.d.), pp. 20-65. The Joint Strategy Review includes developing forecasts of the national security environment for the Future Years Defense Plan's planning period, as well as strategic options, assessments, and evaluations of risk for consideration by the Secretary and the President.

[8] U.S. Department of the Air Force, Air Education and Training Command, Air Command and Staff College Associate Programs, "Jointness in the PPBS," pp. 20-65.

As it currently operates, the department's strategic approach concentrates primarily on the programming phase of the planning, programming and budgeting system, with little apparent attention to addressing fundamental questions about the department's future environment, role and direction.[11] Critiques of this aspect of the planning, programming and budgeting system are well known.[12] On the other hand, as much of the current professional literature uses the term *strategic planning,* and as many of today's leading private sector firms and government organizations practice it, the concept refers to much more than just the length of the planning horizon. Rather, as the following chapter describes more fully, a strategic approach involves examining such fundamental issues as what business the organization is in or should be in, what it should look like in the future in order to survive and prosper in its expected environment, and how it should get from where it is today to where it believes it needs to be in the future. In more familiar, departmental terminology, a strategic approach involves "thoughtful debate on issues that affect roles, missions, and functions, and, more importantly, defense priorities."[13]

. . . a strategic approach involves examining such fundamental issues as what business the organization is in or should be in, what it should look like in the future in order to survive and prosper in its expected environment, and how it should get from where it is today to where it believes it needs to be in the future.

It is important to note that, as even this brief treatment of the Joint Strategic Planning System and the planning, programming and budgeting system demonstrates, these systems already contain the flexibility and much of the infrastructure necessary to incorporate such a strategic approach to long-range planning – for example, within the Joint Strategic Review. In addition, the Joint Chiefs of Staff and each of the armed services are either currently engaged in or have recently completed extensive studies of the future military environment and their visions of their roles in that environment. Such innovative thinking is a prerequisite for and an integral part of the thoughtful debate that the report of the Commission on Roles and Missions envisioned and that characterizes many of today's most innovative, successful corporations and government agencies.

---

[9] The Defense Planning and Resources Board serves as a corporate review body for the PPBS process and manages the process for the Secretary. See U.S. Department of the Air Force, Air Education and Training Command, Air Command and Staff College Associate Programs, "The A-B-Cs of the PPBS," pp. 20-21.

[10] Hence, the *DPG* is also the link between the planning and programming phases of the PPBS. The programming phase then focuses on developing the services' Program Objective Memoranda and integrating them "into a coherent defense program to support the [war-fighting] requirements of the combatant commanders." U.S. Joint Chiefs of Staff, *Joint Pub. 5-0*, p. II-2.

[11] Within the department as well as outside it, both pundits and serious, experienced observers often say that "the first P [namely, planning] in PPBS is silent." See, for example, Carl H. Builder and James A. Dewar, "A Time for Planning? If Not Now, When?" *Parameters: US Army War College Quarterly,* Vol. XXIV, No. 2 (Summer 1994), p. 4. Builder and Dewar observe, "As they do about the weather, perhaps, everyone complains about planning, but no one does anything about it. There is nothing new about lamenting either the quantity or quality of planning in American military institutions." They advance the hypothesis that "planning was neglected because the stasis of the Cold War resolved most of the uncertainties that are properly the central occupation of planning; and since planning was thus made relatively easy, planners confused planning with programming and making plans" (p. 5).

[12] Until the recent development of the Chairman's *Joint Vision 2010,* long-range planning for the period beyond the Future Years Defense Plan's six-year horizon occurred primarily in the context of the *Long-Range Vision Paper,* which was published "as needed" by the Joint Staff's Director for Strategic Plans and Policy (J-5) and "examines plausible future environments 14 years beyond the Future Years Defense Plan (FYDP) period." See U.S. Department of Defense, National Defense University, Armed Forces Staff College, *AFSC Pub. 1, The Joint Staff Officer's Guide 1993* (Norfolk, VA: AFSC, 1993), pp. 5-7. To a certain extent, these critiques merely represent different perspectives about how many years into the future a truly "strategic" plan or vision must look. If six years aren't enough, are ten? Fifteen? Thirty? The text addresses the more substantive differences.

[13] Commission on Roles and Missions of the Armed Services, *Directions for Defense,* Report of the Commission on Roles and Missions of the Armed Forces to the Secretary of Defense (Washington, DC: U.S. Government Printing Office, May 24, 1995), pp. 4-5.

To be most effective, strategic planning should define "specific strategic objectives, identify fiscal and other constraints, offer strategy for security objectives, and play a key role in determining force capability requirements." [14] One of the objectives of this report is to demonstrate the role that human resource management can play in the strategic planning process, and in resolving the types of fundamental issues raised as part of that process. The research upon which this report is based leads to the conclusion that the Department of Defense could use human resource management policies and practices as a strategic lever to better accomplish its mission, vision, and corporate goals. This report recommends a formal structure and process, specifically to address major human resource decisions, that will institutionalize strategic human resource management in the department. This would place the department solidly among those world-class organizations that are recognized as being on the leading edge of modern strategic management, in general, and strategic human resource management, in particular.

One of the objectives of this report is to demonstrate the role that human resource management can play in the strategic planning process . . .

The following chapter describes strategic management and strategic human resource management and how they might apply to the uniformed services.

---

[14] Lovelace and Young, p. 4.

CHAPTER 2
A STRATEGIC PERSPECTIVE

> The military posture for the next 20 years is conceptualized implicitly in terms of the problems of *today*, rather than in terms of deeper forces that reflect both the changing character of war and the military transformation taking place in the world. Immediate U.S. problems are characterized by deep military budget cuts, regional contingencies, 'messy operations' (such as Yugoslavia), and a substantial military capacity inherited as a legacy from the Cold War. All of these are worthy of attention. But, if anything is certain, it is that in 20 years the current budget crisis, the regional strategy and even Yugoslavia will be forgotten as new problems of national security and international order appear.
>
> – *Paul Bracken* [1]

. . . a strategic approach required linking the design of the policies and practices of the human resource management system to the outcomes sought by the organization and, thus, to the strategy for achieving those outcomes.

President Clinton chartered the 8th Quadrennial Review of Military Compensation to develop a compensation system for the 21st century that fulfills the needs of an all-volunteer, quality force. In carrying out this charter, it was directed to take a strategic approach. This required expanding the charter beyond consideration of compensation alone, to include all the elements of the human resource management system. In addition, and more important to the case at hand, a strategic approach required linking the design of the policies and practices of the human resource management system to the outcomes sought by the organization and, thus, to the strategy for achieving those outcomes. This chapter and the next present an in-depth discussion of how that link can be achieved. Together, these chapters develop an approach to managing the activities of an entire organization based on strategy, with a specific focus on human resource management. This chapter defines a strategic approach, in general, and a strategic approach to human resource management, in particular; it also describes the context required to support this type of approach. The next chapter describes the framework that would permit this approach to be carried out in the uniformed services.

The discussion is significantly influenced by the emerging thoughts of leading organizations in the private sector; even though differences exist between private and other public organizations and the uniformed services, the discussion is widely applicable to the uniformed services.

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[1] "The Military After Next," *Washington Quarterly*, Vol. 16, Iss. 4 (Autumn 1993), p. 157.

A General Strategic Approach

A general strategic approach forms the context for a discussion focused specifically on human resource management. This section describes a strategic approach, in general, and suggests how the uniformed services might benefit from this perspective.

Private sector enterprises manage their businesses in many different ways. The choice of an approach to management is driven by the desire, first, to survive and, then, to prosper. Both desires are increasingly more difficult to achieve in today's environment of unrelenting competition and growing demands of customers and stakeholders for customization and higher quality, increased return on investments and social responsibility. Both private and public sector organizations respond to these changing demands by examining the organization's reason for existing, establishing a common direction based on an ideal image of what the organization wants to look like in the future and ultimately creating fundamental changes in the way the organization operates.

"Taking a strategic approach" means relating everything an organization does to its strategy.

"Taking a strategic approach" means relating everything an organization does to its strategy. An organization taking such an approach uses its chosen strategy as a lens to examine how each of its operating units or functions contributes to achieving the specific strategic outcomes required for the organization's success (in whatever way that is measured) and as a guide for decisions that determine what the organization does during daily operations.

Definitions and Perspectives

What is meant by a "strategy," in general, and a "strategic approach," in particular? This subsection defines these terms to establish a common basis for further discussion.

Strategy

Strategy is the *raison d'être* for, and consequently, at the core of, a strategic approach.

Strategy addresses change.

Strategy addresses change. Because change is continuous, the formulation and maintenance of strategy are effective only as a process of continually evaluating performance against and progress toward a vision – and a set of goals and objectives – that itself evolves with the changing environment.

Strategy is broadly defined as *how* an organization intends to get to its desired destination. In this sense, strategy can be thought of as a pattern of decisions and policies that guide an organization.

Builder has suggested the following definition of strategy in the context of a strategic planning process for the military: "Within the strategic planning process, a strategy is a concept for relating choices in the kind of future military capabilities (means) to decisions about purposes (ends) for which those military capabilities should be acquired.” [2]

Several other definitions offer insight into the general concept of strategy. Porter, in discussing competitive strategy in the private sector context, explicitly takes into account the *dynamic* nature of strategy. To him, the “essence of formulating competitive strategy is *relating [an organization] to its environment*,” based on the industry’s long-term profitability and the organization’s relative competitive position within the industry. [3] In addition, both industry attractiveness and the organization’s competitive position are subject to change over time. Furthermore, “[c]ompetitive strategy . . . not only responds to the environment but also attempts to shape that environment in [the organization’s] favor.” [4]

Although this perspective was developed in the private sector context, it takes little imagination to translate it into terminology more meaningful to the uniformed services. To wit, the essence of formulating a competitive defense strategy is relating the department and its components to its environment based on the value of the military and its relative capabilities to address the perceived and real threats. The defense strategy changes in response to these threats and attempts to shape the environment to its advantage.

. . . every organization has a strategy, whether articulated or not, that reflects the major decisions and commitments of senior leaders on how to position the organization in its environment.

Strategy has been defined as “the pattern or plan that integrates an organization’s major goals, policies, and action sequence into a cohesive whole.” [5] The literature generally agrees that every organization has a strategy, whether articulated or not, that reflects the major decisions and commitments of senior leaders on how to position the organization in its environment. “By considering strategy as the pattern of decisions of the firm, we recognize that strategy is an unavoidable construct – it just emerges from what the firm does.” [6] Thus, where a strategy is not formally articulated, it often can be inferred from decisions about resource allocation or from the major actions of the organization.

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[2] Carl H. Builder, *The Army in the Strategic Planning Process: Who Shall Bell the Cat?* (RAND Report # R-3513-A) (Santa Monica, CA: RAND, 1987), p. 7. According to Builder, strategic planning in the military should address the following fundamental questions.

- What are the military (as opposed to political) objectives of our forces if they are forced to fight?
- What forces are required to fulfill those expectations?
- What risk is the national leadership willing to accept as to the adequacy of those forces or to other consequences attending their use?

[3] Michael E. Porter, *Competitive Strategy* (New York, NY: Free Press, 1980), p. 3 (emphasis added). The same is true of Andrews’ model. Kenneth R. Andrews, *The Concept of Corporate Strategy* (Burr Ridge, IL: Irwin Professional Publishing, 1980), pp. 18–19. While Porter’s discussion explicitly recognizes that the “relevant environment” encompasses a broad spectrum of forces, he believes the structure of the specific industry or industries the firm operates in is the key aspect of that environment, because the industry’s structure strongly influences “the competitive rules of the game as well as the strategies potentially available to the firm. Forces outside the industry are significant primarily in a relative sense; since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them.”

[4] Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York, NY: Free Press, 1985), p. 2. If the firm chooses an inappropriate strategy, its position in the industry may erode.

[5] James B. Quinn, Henry Mintzberg and Robert M. James, *The Strategy Process: Concepts, Contexts, and Cases* (Englewood Cliffs, NJ: Prentice Hall, 1988), p. 3.

[6] Arnoldo Hax and Nicolas S. Mujluf, *The Strategy Concept and Process: A Pragmatic Approach,* 2nd ed. (Upper Saddle River, NJ: Prentice Hall, 1996), p. 7.

A useful perspective on strategy focuses on corporate, subunit, and functional roles. The **corporate strategy** deals primarily with the definition of the overall mission of the organization, the validation of requirements emerging from subunits and functions, the identification and exploitation of linkages between distinct but related subunits, and the allocation of resources with a sense of strategic priority. The **subunit strategy** includes all activities necessary to enhance the ability of each subunit to accomplish its mission. The **functional strategy** develops functional competencies in finance, administrative infrastructure, human resources, technology, procurement, logistics, manufacturing, distribution, marketing, sales and services needed to achieve corporate and subunit strategies. [7] This perspective is used as the basis for a strategic approach to human resource management.

From these definitions and perspectives (and others summarized in Appendix I), it is apparent that strategy is not a precise construct – it can be identified more easily from its purpose, from seeing what it *does*, or from what its impact on the organization is. Strategy is that which describes *how* an organization intends to achieve its aims.

Strategic Approach

A *strategic approach to management* is defined as "a disciplined effort to produce fundamental management decisions and actions that shape and guide what an organization is, what it does, and why it does it." [8]

Strategy is that which describes how an organization intends to achieve its aims.

A strategic approach to management has two essential components:

- The first component establishes common direction in the organization and produces fundamental decisions. This involves developing a long-term vision to clearly articulate the direction and desired end-state of the organization. The result of strategic planning is an integrated set of corporate, subunit and functional strategies to achieve desired organizational outcomes. [9]
- The second component delineates and implements the actions needed for the organization to achieve the strategies.

Characteristics of the Strategic Approach

Organizations that choose a strategic approach to management generally manifest the following distinguishing characteristics: [10]

---

[7] Hax and Majluf, p. 14.

[8] John M. Bryson, *Strategic Planning for Public and Nonprofit Organizations* (San Francisco, CA: Jossey-Bass Publishers, 1988), p. 20.

[9] The distinction within the Department of Defense is not as well defined as in the private sector. This does not preclude transferring the concept, although the translation may, necessarily, be a little ambiguous. For example, the corporate level might refer to the Office of the Secretary of Defense and the strategic subunits would be the individual services. On the other hand, the Office of the Secretary of Defense *and* the services might be considered the corporate entity and the strategic subunits would be major commands or other similar large organizational entities or communities that operate with some degree of independence. The report tends to refer to these levels in the latter context; however, the strategic approach described applies equally well to either context (as well as others). Of course, the functional level translates more easily, and for the case at hand, the discussion focuses on the function of human resource management.

[10] Hax and Majluf, p. 32, and Porter (1980), p. xviii.

- They mobilize all key managers to pursue agreed-upon and shared objectives.
- They achieve a balance between centralization and decentralization that fosters independence of each subunit by allowing individual subunit strategies tailored to the environment in which they operate, but linking them when it makes strategic sense to do so through corporate strategy.
- They encourage key members of the organization to focus on the strategic direction of the subunits.
- They develop managerial competencies of key members of the organization by increasing their understanding of corporate and subunit objectives and illustrating the way in which those objectives can become reality.
- They increase involvement of and motivate key decision makers and organizational members as the organization pursues important missions and deals with fundamental questions it faces.
- They identify opportunities and threats from the environment that might affect the organization's ability to reach its objectives.
- They consider a range of possible futures and the implications of present decisions in the context of that range.

Because strategic human resource management focuses on the design of a human resource management system, it is an essential prerequisite to developing the capabilities of people within an organization.

Strategic Human Resource Management

The discussion on strategic management above is intended to set the stage for the following discussion for strategic *human resource management*. The underlying theme linking these two sections is the need for a strategic approach, not just at the corporate level, but at the subunit and functional level as well. Strategy (in its various and interrelated forms) ties these levels together and is the major contributor to increased organizational performance.

Most importantly, according to Hax and Majluf, the motivating force or principle of strategic human resource management is the view that people are a critical valuable asset of an organization: "Without demeaning the value of other resources, there is an increasing belief that people provide the most lasting and sustainable differentiating capabilities." [11] Because strategic human resource management focuses on the design of a human resource management system, it is an essential prerequisite to developing the capabilities of people within an organization.

Definitions and Perspectives

Strategic human resource management is not so much a new concept as it is the next evolutionary step in the development of a philosophy for employing people to improve organizational performance.

Traditional human resource management consists of various practices commonly grouped into such areas as rewards, selection, training and appraisal. Human resource

Strategic human resource management is not so much a new concept as it is the next evolutionary step in the development of a philosophy for employing people to improve organizational performance.

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[11] Hax and Majluf, p. 37.

leaders have tended to treat these areas as separate functions, and the field of human resource management evolved to mean the technical knowledge necessary to carry out each of these four functions. Line managers perceived human resource management as a provider of technical advice on the administration of personnel matters, with little knowledge of operations and with little ability to influence organizational outcomes important to them as leaders of operating units (and the same can be said for commanders in the uniformed services). A somewhat broader view of human resource management helped position the function in more meaningful terms: "human resource management as an umbrella term includes (a) specific human resource practices such as recruitment, selection, and appraisal; (b) formal human resource policies, which direct and partially constrain the development of specific practices; and (c) overarching human resources philosophies, which specify the values that inform an organization's policies and practices." [12] As progressive leaders began using a strategic approach to management, they attempted to tie each of the separate human resource management functions to strategy. These early attempts, however, failed to account for interactions or interrelationships among the functions.

. . . vertically, strategic human resource management aligns policies and practices to strategy.

Several authors have discussed the concept of strategic human resource management: [13]

- Schuler and Walker defined strategic human resource management as a set of processes and activities jointly shared by human resource and line managers to solve people problems. They view human resource management strategy as having a short-term focus on business needs.
- Guest saw strategic human resource management as fully integrating human resource management into the strategic planning process, across policy areas and hierarchies, accepted and used by line managers as part of their everyday work.
- Schuler offered what might be the best definition of strategic human resource management: "all those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of the business."
- Wright and McMahan, in an article reviewing the above perspectives, defined strategic human resource management as "the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals." Two dimensions from this definition are useful in distinguishing strategic human resource management from traditional human resource management. First, vertically, strategic human resource management aligns policies and practices to strategy. Second, horizontally, strategic human resource management emphasizes the coordination and congruence among the various human resource management policies and practices through a pattern of planned actions. The concept of horizontal alignment recognizes that elements of the human resource management system are related and can create synergy when properly designed.

. . . horizontally, strategic human resource management emphasizes the coordination and congruence among the various human resource management policies and practices . . .

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[12] Susan E. Jackson and Randall S. Schuler, "Understanding Human Resource Management in the Context of Organizations and Their Environments," *Annual Review of Psychology*, Vol. 46 (1995), p. 239.

[13] For full references, see the review of the literature by Patrick M. Wright and Gary C. McMahan, "Theoretical Perspectives for Strategic Human Resource Management," *Journal of Management*, Vol. 18, No. 2 (June 1992), p. 298.

"Strategic human resource management" (focusing on organizational outcomes) has the potential for making dramatic improvements in organizational performance.

The evolution of human resource management has improved organizational performance. This is shown conceptually in Figure 2. As described above, the shift in perspective from "personnel administration" (record keeping) to "personnel management" (distinct staff functions) to "human resource management" (distinct functions working together) increased the value of the human resource management department to the organization. In large part because they focused on operations internal to the human resource management department, each of these transformations reached a point where additional contributions to organizational performance leveled out. "Strategic human resource management" (focusing on organizational outcomes) has the potential for making dramatic improvements in organizational performance. It is this potential this report focuses on.

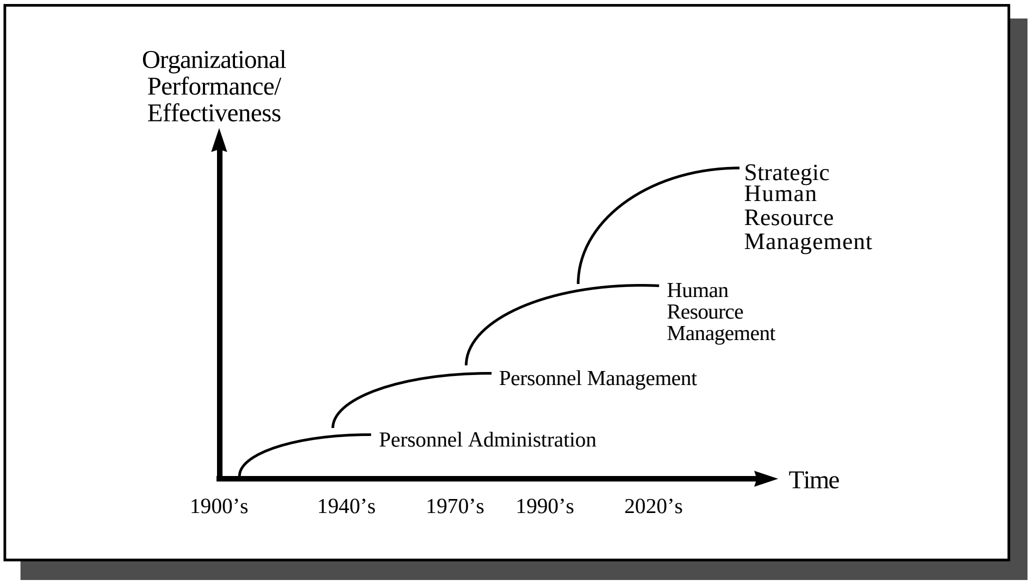
Organizational Performance/ Effectiveness
Strategic Human Resource Management
Human Resource Management
Personnel Management
Personnel Administration
Time
1900's
1940's
1970's
1990's
2020's

Figure 2 – Evolution of Strategic Human Resource Management

Strategic human resource management is a disciplined effort to produce fundamental human resource management decisions and actions that shape and guide what a human resource management system is, what it does, and why it does it.

The definition of a strategic approach to management discussed earlier can be modified to describe a strategic approach to human resources management. *Strategic human resource management* is a disciplined effort to produce fundamental human resource management decisions and actions that shape and guide what a human resource management system is, what it does, and why it does it.

Strategic human resource management has the same two essential components as a strategic approach to management:

- The first component establishes a common direction for human resource management in the organization and produces fundamental human resource management decisions. It includes:
  - The articulation of a human resource management vision.
  - The delineation of a general system design for the human resource management system.

  - The specification of human resource management strategy for aligning the elements of the human resource management system to the corporate and subunit strategies and with each other.
  - The identification of desired behaviors and outcomes and the selection of appropriate policies and practices to support them.

  The result of strategic planning for human resource management is an integrated functional strategy for vertically and horizontally aligning policies and practices of the human resource management system to achieve desired organizational outcomes.

- The second component implements the policies and practices required for the organization to realize the full potential of its human resources in support of corporate and subunit strategies.

The result of strategic planning for human resource management is an integrated functional strategy for vertically and horizontally aligning policies and practices . . . to achieve desired organizational outcomes.

Characteristics of a Strategic Approach to Human Resource Management

Organizations that choose a strategic approach to human resource management generally manifest distinguishing characteristics that parallel those flowing from a general strategic approach: [14]

- They design policies and practices to achieve the organization's goals and strategies, not to match the policies and practices of other organizations. [15]
- They recognize the impact of the environment (both threats and opportunities). This avoids costly and disruptive surprises that can stand in the way of achieving goals and/or can create costly emergencies. [16]
- They develop human resource knowledge that results in better human resource management; this translates into higher employee productivity and greater organizational success.
- They provide a sense of direction and set priorities.
- They establish essential inputs to the strategy formulation process for the organization, particularly in people-intensive organizations.

The following chapter develops such an approach to human resource management.

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[14] Hermine Zagat Levine, "Book Review on *Strategic Planning for Human Resources Management*, AMACOM, by Robert E. Sibson," *Compensation and Benefits Review*, Vol. 26, Iss. 2 (March/April 1994), p. 79.

[15] Vida Scarpello, "New Paradigm Approaches in Strategic Human Resource Management," *Group and Organizational Management*, Vol. 19, No. 10927.01 (1994), p. 161.

[16] Levine, p. 79.

CHAPTER 3
HUMAN RESOURCE MANAGEMENT STRATEGY

This chapter develops a strategic approach to human resource management. The first section discusses “levels of strategy” and suggests where functional strategies, in general, and human resource management strategy, in particular, fit into the overall strategic milieu. The next section presents the empirical and theoretical case for alignment. The chapter concludes with a description of an integrated framework and an operational method for aligning human resource management policies and practices with organizational outcomes; it then applies it to the uniformed services.

Levels of Strategy

Large organizations are generally composed of subunits that operate with varying degrees of independence. Ideally, strategy permeates organizations; therefore, formulating effective strategy at various *levels* of an organization requires explicitly relating these strategies to higher level organizational ends. This is accomplished using two concepts: *vertical integration* relates the strategies, goals and objectives of each level of the organization to those of the levels above; *horizontal integration* establishes appropriate interrelationships that foster synergy and resource and process sharing among subunits and/or functions at the same level of the organization.

. . . formulating effective strategy at various levels of an organization requires explicitly relating these strategies to higher level organizational ends.

These concepts are relevant to the uniformed services. They help both to explain the organizational structure observed and to describe roles for strategy within the uniformed services. Although the term “strategy” has military origins, the language of the strategic planning literature reflects its private sector focus – for example, the terms “business unit” and “competitive advantage.” Fortunately, the fact that equivalent language for the public sector does not exist has not prevented public sector organizations from enthusiastically applying the concepts. As an example, most literature assumes that achieving a competitive advantage is the goal of any organization engaged in strategic planning. The sidebar entitled “The Military and Competitive Advantage” addresses the relevance of “competitive advantage” to the military.

The Military and Competitive Advantage

"The price of failure for the military is not just profit loss for stockholders or bankruptcy, but a loss of freedom." [1]

Because the "customers" of the uniformed services are more diverse than a private company's, performance measurement is less well-defined and the motivation to perform comes from a different source. Notwithstanding these differences, similarities in the goals of all organizations make the concepts behind competitive advantage as relevant to the uniformed services as they are in the private sector. "Competitive advantage" is relevant to the uniformed services in, perhaps, two senses: a *warfighting* sense and a *market* sense.

Competitive advantage in a warfighting sense represents *physical* competition for supremacy, or for existence: in order to carry out their fundamental purpose, the armed forces must sustain a competitive advantage in their warfighting ability. That is, they must acquire, develop, and use their resources, when required, better than any potential adversary. For the armed forces, "freedom" or "readiness" may be the measure that is analogous to "profit" in market competition as an indicator of success. Speaking in a business context, Ulrich and Lake equate the "ability to manage people for competitive advantage" with "ability . . . to create organization-specific competencies and thus enable the business to adapt to changing customer and strategic needs." [2] In the warfighting context, then, developing *competencies* in order to *meet strategic needs* would be analogous to the competitive advantage normally described in a market context.

But the uniformed services also compete for resources in the marketplace. Bryson observes that "private and nonprofit organizations have begun to compete more forcefully with public organizations. Governments and public agencies often compete with one another (public hospitals for patients; states and communities for industrial plants). Nonprofit organizations often compete intensely among themselves for limited resources." [3] The uniformed services compete with the public and private sectors for resources in several arenas:

- For **people.** The uniformed services compete in the external labor market for high-quality, skilled personnel by offering various enlistment and retention incentives and bonuses.
- For **functions.** Calls for privatization and outsourcing challenge the uniformed services to use resources efficiently. [4] Another perspective is that, in an increasingly "joint" world, the United States will want to retain control of "core" military capabilities during multinational operations. To ensure this, the U.S. military should be the "benchmarking" standard of these core functions for the rest of the world.
- For **budget.** Trade-offs between defense and other government spending will exert continuing pressure on defense budgets (via, for example, the balanced budget movement [5] and concern over duplication of government services [6]).

How is military success measured in peacetime? Internal standards of excellence and external expectations resulting from public scrutiny provide the yardsticks. But a diverse set of "customers" – ranging from the President and the Congress through special interest groups to individual Americans – generates a complex set of performance expectations. The results of such complexity include both ambiguity and constant pressure to withdraw resources from the uniformed services.

Because measures of peacetime military success – and, by the same token, of failure – are unclear, market competition is probably less effective at generating productivity and performance improvements in the uniformed services than it is in for-profit organizations. In the uniformed services, therefore, excellence necessarily relies relatively more on the commitment, values and motivation of people. Regardless of the *source* of motivation to excel, however, the *goal* of the uniformed services is the same as that of private sector organizations: *to do what they do better than anyone else*. And this is the essence of competitive advantage.

Three distinct levels of strategy formulation occur within large, diverse organizations: corporate, subunit, [7] and functional. Corporate strategy is most pervasive and informs the other two levels. Subunit strategy applies to parts of the organization that are logical segmentations of organizational activities based on missions, services, products, customers, geography, etc. Functional strategy applies to the distinct requirements and capabilities that functions must fulfill for the organization to achieve subunit and corporate strategies. In practice, functions are often fragmented or stovepiped, so integration is difficult and functional strategy tends to be neglected. [8] The consequences of not integrating these three levels of strategy are partly reflected in the inability of many organizations to survive in an increasingly competitive environment.

Corporate strategy usually applies to the organization as a whole and "defines the businesses in which a company will compete, preferably in a way that focuses resources to convert distinctive competence into competitive advantage." [9] Decisions at the corporate level involve tradeoffs for which the broadest perspective is necessary; corporate strategy is a "decision that cannot be decentralized without the risk of committing suboptimization errors." [10] Similarly, "corporate strategy deals primarily with the shrewd management of the portfolio of businesses, which includes the proper allocation of resources among them, the sharing of those resources across them, and the use of the organizational resources and capabilities for the development of new businesses." [11] Some large, complex organizations may choose to expand "corporate" to include more than the top management level, or they may choose to specify more

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[1] Honorable Joseph I. Lieberman, Member, Committee on Armed Services, U.S. Senate, "The U.S. Military and a New Century: Challenges and Opportunities," speech given at the Center for Strategic and Budgetary Assessments Conference on Defense Innovations: Meeting the Challenges of a New Century, Washington, DC, April 24, 1996.

[2] David Ulrich and Dale Lake, *Organizational Capability: Competing from the Inside Out* (New York, NY: John Wiley & Sons, 1990), p. 40.

[3] Bryson, p. 38.

[4] For example, General Shalikashvili, Chairman of the Joint Chiefs of Staff, has suggested that "many jobs in support units could be eliminated through a combination of privatization and consolidation;" and Secretary of Defense William Perry that "[m]ajor opportunities exist for the department to operate more efficiently and effectively by turning over to the private sector many non-core activities." Both are quoted in Rick Maze, "Weapons vs. Personnel: Tough Balance," *Army Times*, March 18, 1996, p. 16.

[5] The portion of the federal budget that is discretionary is projected to fall from 38.6 percent of federal government spending in 1993 to 28 percent in 2003. (Mandatory spending includes net interest, Social Security, Medicaid, etc.) The Defense budget comprises much of the discretionary portion. Although recently, during the Cold War, defense spending has averaged 7 percent of gross domestic product (GDP), it is falling toward its historical peacetime norm of 1 percent of GDP over the previous 150 years (from 3.5 percent of GDP in 1996 to a projected 2.8 percent in 2001). *Source:* Loren B. Thompson, "Defense Management Trends: A Revolution in Organizational Behavior," presentation to the 8th QRMC, February 16, 1996 (Alexis de Tocqueville Institution, Arlington, VA).

[6] For instance, 1995 GAO testimony to the Congress identified six government agencies charged with defense-related responsibilities in addition to the Department of Defense; and four non-defense functions shared by the Department of Defense with other agencies. *Source:* U.S. General Accounting Office, *Government Restructuring: Identifying Potential Duplication in Federal Missions and Approaches, Testimony Before the Committee on Governmental Affairs, United States Senate* (GAO/T-AIMD-95-161) (Washington, DC: U.S. General Accounting Office, June 7, 1995).

[7] The usual term employed in the literature is "strategic business unit." To make the discussion more generally applicable, particularly to the uniformed services, this report uses the term "subunit" in most places to mean "business unit" or "strategic business unit."

[8] Hax and Majluf, p. 323.

[9] Kenneth R. Andrews, pp. 18–19.

[10] Hax and Majluf, p. 24.

[11] Hax and Majluf, p. 216.

than one "corporate" level, if it makes sense in the context of their competitive environment. For example, they might choose to combine the headquarters of smaller components of the organization – subunits – with the traditional corporate level, or they might choose to designate the headquarters of large subunits as other "corporate" entities for the sake of strategy formulation. "This could be a sector, a group, a division, or any aggregation of business units requiring an integrative strategic analysis." [12] The case of a conglomerate can be used to illustrate this point. In a conglomerate (that has, by definition, a diversified portfolio), the "large" corporate strategy could be that of portfolio management whereas the "smaller" corporate strategies could be those of each diversified business. In this case, the businesses are too diverse to fit into one overall operational strategy.

The overall strategy of the Department of Defense is analogous to the *corporate* strategy, defining the "businesses" the department is involved in and allocating resources among subunits. However, because the Department of Defense is so large and diverse (perhaps analogous, in some ways, to the conglomerate described above), it may make sense to conduct the analysis for corporate strategy with the perspective that there is more than one "corporate" level, for example, the Department of Defense as the large corporate entity with the services as the smaller corporate entities, or it might even make sense to combine the services with the Department of Defense as a corporate entity.

. . . because the Department of Defense is so large and diverse . . . it may make sense to conduct the analysis for corporate strategy with the perspective that there is more than one "corporate" level . . .

Subunit strategy applies to a part of the organization – referred to in the private sector as a strategic business unit. Hax and Majluf offer the following definition of a strategic business unit: "an operating unit or a planning focus that groups a distinctive set of products or services sold to a uniform set of customers, while facing a well-defined set of competitors." [13] In their view, a subunit does not have to be a well-defined organizational entity; its emphasis on services or products, customers, and competitors implies that the subunit may be defined by its role in coordinating activities among these three elements. In fact, they argue subunits ought to be thought of as "coherent categories that will allow the most effective management of the [organization's] resources." [14] The idea of coordination appears also to be behind Bryson's definition of the strategic business unit's counterpart in public sector organizations, the "strategic public planning unit." The strategic public planning unit is "an agency or department that addresses issues fundamentally similar to one another (such as related health issues, related transportation issues, or related education issues)." [15] In the case of the Department of Defense, these subunits may be analogous to, services, major commands, functions, "communities" (such as, medical or acquisition), or the separate defense agencies, etc.

Lastly, *functional strategy* "deals with developing the necessary functional competencies in finance, administrative infrastructure, human resources, technology, procurement, logistics, manufacturing, distribution, marketing, sales and services needed to sustain competitive advantage." [16] It flows from the corporate and subunit strategies and ensures that the capabilities to develop the firm's unique competencies reside in each of these functions. [17] This level of strategy, as it applies to the human resource management function, is the focus of this report.

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[12] Hax and Majluf, p. 191.

[13] Hax and Majluf, p. 43.

[14] Hax and Majluf, p. 46.

[15] Bryson, p. 164.

Cascading Strategies Within the Uniformed Services

These levels of strategy (corporate, subunit, and functional) are useful in establishing *the context of the human resource management function in the uniformed services*. Figure 3 highlights the "cascading" nature of the relationships among the levels of strategy. The external environment (forces outside the department) is the primary driver affecting the department's (corporate) purpose and mission; it also indirectly affects the purpose and mission of subunits and functions, including the human resource management function. The dotted lines suggest the direction of influence among the elements at different levels of the strategic process. [18]

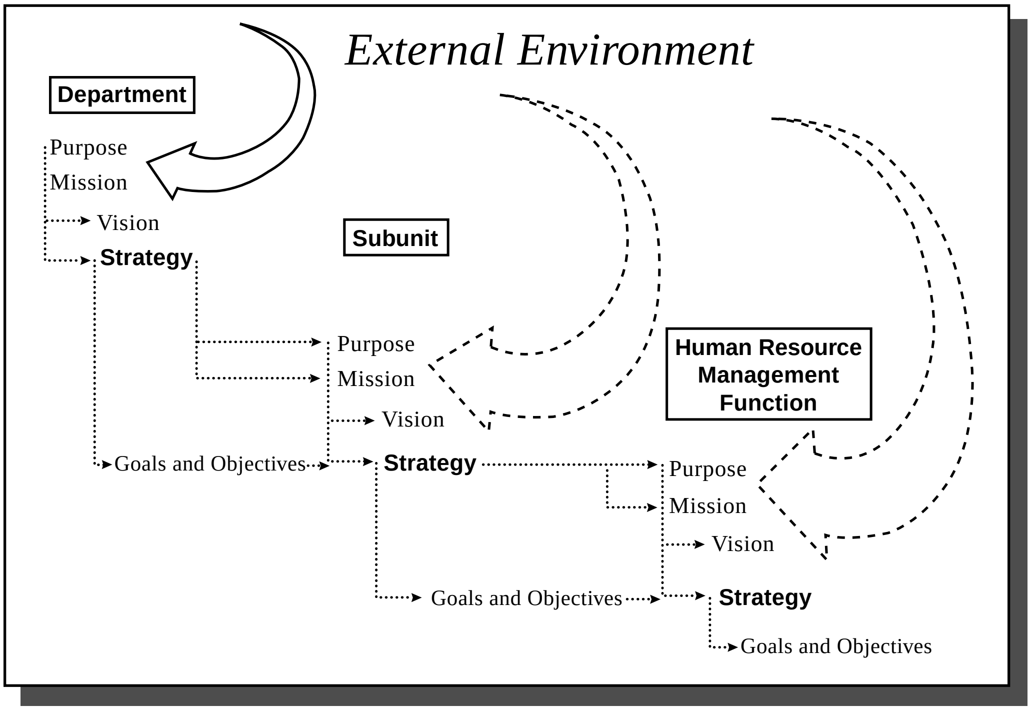
External Environment
Department
Purpose
Mission
Vision
Strategy
Subunit
Purpose
Mission
Vision
Goals and Objectives
Strategy
Human Resource Management Function
Purpose
Mission
Vision
Goals and Objectives
Strategy
Goals and Objectives

Figure 3 – Cascading Strategies

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[16] Hax and Majluf, p. 7.

[17] Hax and Majluf, p. 24.

[18] This framework assumes that forces outside the organization (at all levels) are a primary driver in determining purpose and mission. In other words, those in charge of the organization can not easily change the purpose or mission. However, it assumes that leaders' values, mental images and leadership style, together with the assets the organization owns, controls, or has access to, are primary drivers in determining the organization's vision, strategy, goals and objectives, in the context of the influence of the external environment.

The department-level strategy most directly affects the purpose and mission of subunits. Through the more specific measures of goals and objectives, department-level strategy informs and shapes subunit strategy; and indirectly, it affects the purpose and mission of functions. Similarly, subunit strategy, through goals and objectives, informs and shapes functional strategy. Functions, and therefore their strategies, exist to deliver specific capabilities required to achieve subunit and corporate missions and strategies. Passing information among these levels achieves vertical and horizontal integration within the department.

Functions, and therefore their strategies, exist to deliver specific capabilities required to achieve subunit and corporate missions and strategies.

Appendix II illustrates how a chain of reasoning that begins with "purpose" and "mission" and flows through "vision" and "strategy" to "goals" and "objectives" might apply in the Department of Defense at the corporate, subunit, and functional levels.

The Department of Defense is structured in levels that fit this paradigm. Admiral Miller, former Commander-in-Chief of United States Atlantic Command, saw "many parallels between [his] position and the responsibilities of a major corporate CEO." [19] He advocates a department strategy that focuses on "the core competencies of the armed forces," that are "the functional strengths and expertise of the various components and agencies," and that "form the center of our deterrence and warfighting ability." [20] He also observes that a unified commander's activities are guided (from the corporate level) by the National Military Strategy and the Defense Planning Guidance.

Integrating Strategies

Vertical and horizontal integration are necessary considerations in developing strategy.

Vertical integration implies that each level of the organization (subunits and functions) aligns its strategy and policies so that they are congruent with the strategies and policies of the levels above and below it in the organization. [21] As seen in the "cascade" diagram above, this process starts at the top with corporate strategy. Therefore, one of the first and most important tasks of corporate-level strategic planning is to define the subunits. [22] As subunits and functions devise or change their strategies, they should ensure that their strategies are consistent with the corporate strategy as well as those of the other levels of the organization.

Vertical integration implies that each level of the organization . . . aligns its strategy and policies so that they are congruent with the strategies and policies of the levels above and below it in the organization.

Horizontal integration means that each unit in the organization aligns its strategy and policies so that they mesh with those of other units at the same level, to the extent required to achieve overall organizational ends. It describes the lateral communication flows across subunits of an organization. To the extent an organization's strategies are horizontally integrated, it can exploit "synergies across [subunits] . . . to add value beyond the simple sum of independent . . . contributions."[23] Horizontal integration provides not only economies of scale, but also subunit activities that mutually support and contribute to overall organizational goals. Appendix III contains a more detailed discussion of horizontal integration in the uniformed services.

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[19] Paul D. Miller, *Both Swords and Plowshares*, Institute for Foreign Policy Analysis National Security Paper # 10 (Hollis, NH: Puritan Press, Inc., 1992), p. 14.

[20] Miller, pp. 2-3.

[21] This definition is different from one that is popular in the private sector. There, *vertical integration* sometimes describes the ownership and control over the organization's chain of activities from acquisition of inputs, research and development to production, and distribution of goods and services. This second definition could become more relevant to the department as privatization and outsourcing expands.

[22] Hax and Majluf, p. 24.

Table 1 illustrates a notional structure of strategic levels within the department. Because some "functions" in the Department of Defense are also "commands," and because of the size and diversity of the existing organizational structure, other categorizations are possible. For example, the Air Force's Air Education and Training Command (AETC) and Air Force Personnel Command (AFPC) both perform human resource management functions. Similar examples exist in each of the services in human resource management and in other functions. Within this organizational structure, the existence of counterparts to service functions in the Office of the Secretary of Defense and the Office of the Chairman of the Joint Chiefs of Staff facilitates vertical and horizontal integration throughout the department.

Horizontal integration means that each unit in the organization aligns its strategy and policies so that they mesh with those of other units at the same level, to the extent required to achieve overall organizational ends.

Table 1 – Notional Strategic Levels in the Department of Defense

LEVEL OF STRATEGY	DOD ELEMENT
Corporate	*Office of the Secretary of Defense/ Joint Chiefs of Staff*
Corporate (2nd)	*Services (Army, Navy, Marine Corps, Air Force)*
Subunit	*Commands or Communities (Air Combat Command, Training and Doctrine Command, Fleets, Acquisition, R&D, Medical, etc.)*
Function	*Finance, Human Resources, Information, Logistics, etc.*

It is instructive to consider how existing strategic levels within the Department of Defense play out in human resource management policies and practices. One way of looking at the issue is to consider the delegation of decision-making authority in the human resource management function at different levels within the department. As Table 2 suggests, at the corporate or department level today, various constraints and guidelines are set by policy and law. Within those guidelines, the services exercise virtually all latitude the law allows; and considerable latitude flows down to the lower levels. A strategic perspective must raise and address the appropriate degrees of flexibility allowed at each level. The focus should be on whether lower-level commanders have the human resource management tools they need to do their jobs effectively.

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[23] Hax and Majluf, p. 225.

Table 2 – Current Human Resource Management Decision-making Authority in the Department of Defense

Decision Authority by Human Resource Management Component	Organizational Level Decision Authority	Guidance by Organizational Level
Organizational (force) structure *Promotion guidelines/limits* *Compensation elements and levels* *Benefits structure/levels/rules*	*Department*	*Sets overall policies and guidelines – the "bounds" of the system – (with the aid of Congress)*
Service structure and organization *Staffing* *Appraisal guidelines/designs* *Training and development*	*Services*	*Sets policies and guidelines*
Unit structure *Assignments (local)* *Job design* *Training and development*	*Major Commands*	

The Case for Alignment

The strategies of different levels and functions of the organization should support one another and the desired overall organizational outcomes; that is, they should be integrated. Whereas integration focuses on strategies, a similar concept – alignment – focuses on the interrelationship of human resource management policies and practices at various levels of the organization. Although relatively few empirical studies have investigated the effect of alignment, *per se,* on organizational performance, the studies consistently suggest that companies that *do* align their human resource management policies and practices perform better as a result. In addition, the overwhelming consensus of the literature is that alignment of human resource management policies and practices can generate a "sustained competitive advantage" that can lead, in the private and public sectors, to success in an increasingly competitive environment.

. . . alignment of human resource management policies and practices can generate a "sustained competitive advantage" that can lead . . . to success in an increasingly competitive environment.

By contrast, a substantial empirical base supports the strategic approach to human resource management. The work of Gomez-Mejia and Balkin provides the broadest base of evidence that firms with different corporate and business unit strategies have different patterns of compensation. Although Gomez-Mejia and Balkin focus on two *compensation* strategies (algorithmic and experiential), the generalization can be made that different strategies require different compensation systems to be fully effective. Other literature supports a broader strategic approach to human resource management systems, in general – aligning human resource management policies and practices with organizational strategies.

Overall Framework

Gomez-Mejia and Balkin developed theory-based taxonomies of compensation strategies, corporate strategies and business unit strategies. They first identified dimensions of strategy that relate to the compensation, corporate or business level;

they then described various strategies in terms of those dimensions. As a result of this groundwork, they were able to demonstrate that the three categories of strategy were linked empirically. Finally, they described the results of five recent studies designed to test the critical hypothesis that compensation strategy contributes to organizational performance. Throughout, it is possible to translate the private sector vocabulary and context of Gomez-Mejia and Balkin's analysis into terms relevant to the uniformed services and to the approach employed in this report.

Gomez-Mejia and Balkin found, based on a study of 243 firms, that they could classify compensation strategies as falling into either of two categories (or some combination of them): "algorithmic" or "experiential." [24] They based this determination on the patterns of "strategic choices" that are implicit in any compensation system. For example, pay may be based on the *jobs* that employees perform or on the *skills* they possess or use in their work; *performance* may be stressed or *seniority* may be more important; pay may be relatively *fixed* or *variable*; the distribution of *monetary* versus *nonmonetary* rewards may vary; the system may be *centralized* or *decentralized*; etc. These sets of alternative choices are some of the seventeen dimensions of compensation that Gomez-Mejia and Balkin found most frequently used in the literature. [25]

Algorithmic pay patterns tend to be standardized, rule-based, relatively inflexible, and enable pay decisions to be made with "minimal attention to mitigating circumstances, exceptions to the rule, and external contingency factors." [26] *Experiential* pay patterns have the opposite orientation; they are flexible, adaptive and "can be molded to respond to changing circumstances, factors mediating their effectiveness, sudden environmental shifts, and idiosyncratic situations." [27] Table 3 indicates differences in the characteristics and/or emphases of these strategies: [28]

Table 3 – Compensation Strategies – Gomez-Mejia and Balkin Taxonomy

ALGORITHMIC	EXPERIENTIAL
seniority	***skill / personal attributes***
internal equity	***demonstrated performance***
monitoring behaviors	***multi-source performance assessment***
minimal variable compensation	***risk-sharing***
high job security	***deemphasis of hierarchical structure***
bureaucratic policies	***decentralized pay system***
internal labor markets	***flexible policies***

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[24] Luis R. Gomez-Mejia and David B. Balkin, *Compensation, Organizational Strategy, and Firm Performance* (Cincinnati, OH: South-Western Publishing Co., 1992), p. 61.
[25] Gomez-Mejia and Balkin, p. 36.
[26] Gomez-Mejia and Balkin, p. 65.
[27] Gomez-Mejia and Balkin, p. 66.
[28] Gomez-Mejia and Balkin, pp. 35-38.

Gomez-Mejia and Balkin used a factor analytic technique to calculate the extent to which the compensation system of each firm is more or less algorithmic or experiential relative to other firms in the survey. [29] Then they demonstrated that the firms' compensation strategies correlate with different corporate and business unit strategies. The implication is that firms *do* tend to tailor their compensation systems to their organizational strategies.

The implication is that firms do tend to tailor their compensation systems to their organizational strategies.

Corporate Strategy Taxonomy

The main strategic concern at the corporate level is to answer the question, "What businesses should we be in?" As a result, the taxonomies of corporate strategies tend to address decisions about acquisition, divestment, diversification and flow of funds. [30] The most important dimensions for compensation strategy, Gomez-Mejia and Balkin contend, are those dealing with diversification issues, such as how diverse the customers and/or products are ("heterogeneity of customers" and "product/service similarity"); how autonomous the business units are ("unit-interdependence"); how fast the corporation is growing ("diversification rate"); and whether growth is internal or via acquisitions ("diversification mode"). [31] Gomez-Mejia and Balkin used these five dimensions to describe corporate strategy according to a threefold typology: (1) *extent of diversification*, based on the percent of revenue derived from various products; (2) *process of diversification*, dealing with internal- or external-oriented growth [for example, an acquisition in a new market *(evolutionary)* versus deeper penetration within a current market (*steady-state*)]; and (3) *patterns of linkage*, describing how businesses within the corporation relate to one another. Table 4 relates this typology to the five dimensions of corporate strategy.

Table 4 – Corporate Strategies – Gomez-Mejia and Balkin Taxonomy

	EXTENT OF DIVERSIFICATION				PROCESS OF DIVERSIFICATION	
DIMENSIONS	SINGLE-PRODUCT	DOMINANT-PRODUCT	RELATED-PRODUCT	UNRELATED-PRODUCT	EVOLUTIONARY	STEADY STATE
Heterogeneity of Customers	*Minimal*	*Low*	*Medium*	*High*	*Very High*	*Low*
Product/Service Similarity	*High*	*Medium*	*Low*	*Minimal*	*Minimal*	*High*
Unit Interdependence	—	*High*	*Medium*	*Low*	*Minimal*	*High*
Diversification Mode	—	*Internal*	*Mixed*	*Acquisitive*	*Acquisitive*	*Internal*
Diversification Rate	—	*Slow*	*Medium*	*Fast*	*Very Fast*	*Slow*

(continued)

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[29] Gomez-Mejia and Balkin, p. 67-68.
[30] Gomez-Mejia and Balkin, p. 70.
[31] Gomez-Mejia and Balkin, p. 71.

Table 4 – Corporate Strategies – Gomez-Mejia and Balkin Taxonomy (continued)

	PATTERNS OF LINKAGE				
DIMENSIONS	VERTICAL	CONSTRAINED	LINKED	MULTIBUSINESS	CONGLOMERATE
Heterogeneity of Customers	*Minimal*	*Low*	*Medium*	*High*	*Very High*
Product/Service Similarity	*Very High*	*High*	*Medium*	*Low*	*Minimal*
Unit Interdependence	*High*	*High*	*Medium*	*Low*	*Minimal*
Diversification Mode	*Internal*	*Internal*	*Mixed*	*Mixed*	*Acquisitive*
Diversification Rate	—	*Slow*	*Medium*	*Medium*	*Fast*

Business Unit Strategy Taxonomy

. . . the human resource management systems of successful companies tend to differ consistently among firms, depending on the type of strategy the firm employs.

At the business unit level, 20 dimensions of strategy are based on the environment: production processes, market, managerial attributes, organizational structures and culture. [32] Gomez-Mejia and Balkin described well-known typologies of Miles and Snow and of Gerstein and Reisman, and the “organizational life cycle” in terms of these dimensions. Miles and Snow found they could classify all firms as either *defenders* (whose strategy is to maintain market share in a relatively stable product area), *prospectors* (whose strategy is to find and exploit new product and market opportunities) or *analyzers* (whose strategy is to maintain market share but follow or imitate successful innovations of prospectors). [33] “[A] few fundamental business strategies . . . appear to be present, to a greater or lesser extent, in every industry.” [34] Miles and Snow concluded that the human resource management systems of successful companies tend to differ consistently among firms, depending on the type of strategy the firm employs. [35] Their analysis has been amply supported by subsequent analyses. For example, researchers have found that “the reward systems of prospectors are significantly different from those of defenders;” [36] and that “defenders . . . are less concerned about developing current employees. Therefore, performance appraisal is used more for developmental purposes than for evaluation. . . . In contrast, prospectors are growing and so are more concerned about recruiting and using performance appraisal results for evaluation rather than for longer-term development.” [37]

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[32] Gomez-Mejia and Balkin, p. 76.

[33] Raymond E. Miles and Charles C. Snow, “Designing Strategic Human Resources Systems,” *Organizational Dynamics*, Vol. 13, No. 1 (Summer 1984), p. 37.

[34] Miles and Snow (Summer 1984), p. 37.

[35] Miles and Snow (Summer 1984), p. 43.

[36] N. Rajagopolan and S. Finkelstein, *Academy of Management Proceedings* (1990); cited in Sharon R. Peck, “Exploring the Link Between Organizational Strategy and the Employment Relationship: The Role of Human Resources Policies,” *Journal of Management Studies,* Vol. 31, No. 5 (September 1994), p. 718.

Gerstein and Reisman described two strategies relevant to compensation: *dynamic growth* and *rationalization/maintenance*. Dynamic growth is similar to Miles and Snow's prospectors; they give a high priority to market expansion and will undertake financial risks in developing new products. Rationalization/maintenance, similar to the defender strategy, aims at retaining market position while minimizing costs. [38]

From the "organizational life cycle" concept, Gomez-Mejia and Balkin borrowed two stages relevant to compensation strategy: *growth stage* and *mature stage*. The organizational life cycle concept describes the stages of a product's life cycle in a way analogous to the life cycle of an animal or person.

Gomez-Mejia and Balkin allow that either of the latter two typologies may be more intuitively appealing to managers or practitioners; however, their point is that the strategies associated with these typologies map to the Miles and Snow strategies. This supports Miles and Snow's contention that there really are a few broad strategies that can describe any business unit. Table 5 describes the strategies in terms of dimensions.

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[37] Jackson and Schuler, p. 247.

[38] M. Gerstein and H. Reisman, "Strategic Selection: Matching Executives to Business Conditions," *Sloan Management Review*, Vol. 24, No. 2 (1983), pp. 33-74, in Luis R. Gomez-Mejia and David B. Balkin, *Compensation, Organizational Strategy, and Firm Performance* (Cincinnati, OH: South-Western Publishing Co., 1992), p. 79.

Table 5 – Business Unit Strategies

	STRATEGIC PATTERNS/STRUCTURES		
DIMENSIONS	DEFENDERS (RATIONALIZATION/ MAINTENANCE) (MATURE STAGE)	ANALYZERS	PROSPECTORS (DYNAMIC GROWTH) (GROWTH STAGE)
ENVIRONMENT			
Degree of uncertainty	*Low*	*Middle*	*High*
Volatility	*Low*	*Middle*	*High*
Magnitude of change	*Low*	*Middle*	*High*
Complexity	*Low*	*Middle*	*High*
PRODUCTION PROCESS			
Innovation requirements	*Low*	*Middle*	*High*
Degree of standardization	*High*	*Middle*	*Low*
Fixed investment	*High*	*Middle*	*Low*
Technological diversity	*Low*	*Middle*	*High*
MARKET			
Rate of growth	*Low*	*Middle*	*High*
Product innovation	*Low*	*Middle*	*High*
Product market domain focus	*Narrow*	*Middle*	*Broad*
MANAGEMENT			
Risk-taking	*Low*	*Middle*	*High*
Degree of control	*High*	*Middle*	*Low*
Hierarchical emphasis	*High*	*Middle*	*Low*
Environmental proactiveness	*Low*	*Middle*	*High*
ORGANIZATIONAL STRUCTURE			
Centralization	*High*	*Middle*	*Low*
Modus operandi	*Mechanistic*	*Mixed*	*Organic*
Focal unit (function, product)	*Functional*	*Mixed*	*Product*
CULTURE			
Cultural climate	*Regimented*	*Mixed*	*Entrepreneurial*
Type of commitment	*Moral*	*Mixed*	*Calculative*

Linkages to Compensation Strategies

Next, Gomez-Mejia and Balkin related corporate and business unit strategies, in turn, to compensation strategies. The results provide provocative insights for military compensation. Citing research by, among others, Berg (1969, 1973), Lorsch and Allen (1973), Salter (1973), and Balkin and Gomez-Mejia (1990), they reported a high degree of consistency in correlating compensation strategies with corporate strategies. Table 6 shows their results.

. . . if the uniformed services and the environment they operate in are changing, is the current compensation system the right one for the future?

Table 6 – Compensation, Business and Corporate Strategy Linkage

Level of Strategy	Typology	Strategy or Pattern		
Compensation	*Gomez-Mejia and Balkin*	*Algorithmic*	*Mixed*[39]	*Experiential*
Business Unit	*Miles and Snow*	*Defenders*	*Analyzers*	*Prospectors*
	Gerstein and Reisman	*Rationalization/ Maintenance*		*Dynamic Growth*
	Life Cycle	*Mature Stage*		*Start-up Stage*
		Decline Stage		*Growth Stage*
Corporate	*Extent of Diversification*	*Related-product Firms*	*Dominant-product Firms*	*Single-product Firms*
				Unrelated-product Firms
	Process of Diversification	*Steady-state Firms*		*Evolutionary Firms*
	Patterns of Linkage	*Vertical*	*Linked*	*Multibusiness*
		Constrained		*Conglomerate*

Gomez-Mejia and Balkin summarize by saying that "the empirical research . . . strongly suggests that different corporate and business unit strategies are associated with varying pay strategy configurations." [40] They also make some interesting conjectures from the standpoint of the military: "it is the authors' intuition that an algorithmic compensation strategy is more likely to be implemented effectively in an organizational culture known for its attachment to tradition and high value placed on continuity, regimentation, and security."

One might argue that this describes the uniformed services of the past and their compensation system. Two questions, then, arise: First, if the uniformed services and the environment they operate in are changing, is the current compensation system the right one for the future? Second, given the size and diversity within the uniformed services, is the current compensation system – essentially algorithmic – the right one *today*?

. . . given the size and diversity within the uniformed services, is the current compensation system – essentially algorithmic – the right one today?

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[39] Gomez-Mejia and Balkin mean "mixed" to be a combination of algorithmic and experiential strategies – in a single compensation system – rather than a mix of compensation systems under a corporate entity.

[40] Gomez-Mejia and Balkin, p. 96.

"On the other hand," continue Gomez-Mejia and Balkin, "an experiential compensation strategy is more likely to be implemented successfully in an organizational culture characterized by discontinuity, redefinition and renegotiation of tasks and roles as new conditions emerge, and a view of uncertainty and insecurity as a challenge that energizes and stretches people so that they can thrive and grow." [41]

One might argue that this last characterization more accurately describes the environment the uniformed services, or, at the very least, some organizations within the uniformed services, face today and in the future. If so, then a compensation system that permits "experiential" excursions from the standard system, when appropriate, could enhance organizational performance. As Gomez-Mejia and Balkin show, there is a high degree of consistency in correlating compensation strategies with corporate strategies. "[T]he empirical research . . . strongly suggests that different corporate and business unit strategies are associated with varying pay strategy configurations." [42]

Application to the Uniformed Services

. . . alignment of strategies is as important in the uniformed services as it is in the private sector.

The purpose of including these taxonomies – derived from a literature focused predominantly on the private sector – is to show that the dimensions describing different corporate, subunit and compensation strategies also describe strategies that appear to exist within the uniformed services today. This implies that alignment of strategies is as important in the uniformed services as it is in the private sector. For the subunit strategy, there is some correlation between the defender-analyzer-prospector types and the "organizational strategies" described later in the report, but not a close correlation. However, Gomez-Mejia and Balkin were looking at how the literature differentiated subunit strategies and drew their conclusions from that perspective. Their data did not include "organizational strategies," so it is not surprising that it does not have a strong correlation. The point is that strategies *are* related to compensation (and to human resource management systems by extension).

The corporate strategy determines, among other things, the relationship between the subunits. If there is a close relationship, the tendency would be for the subunits to have the same compensation system – probably algorithmic. If there is a looser relationship, then the tendency would be toward experiential – whatever works best for their individual needs (strategies). It appears the services correspond with "mixed/algorithmic" and the major commands with "experiential/mixed." The Department of Defense corresponds perhaps with characteristics of dimensions describing "dominant-" or "related-product" firms, or "linked" or "steady-state."

In terms of the business unit taxonomy, subunits in the departments may have the characteristics of defenders, prospectors, or analyzers. The subunit strategies notionally map as follows to the organizational strategies used as the aligning mechanism in this report.

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[41] Gomez-Mejia and Balkin, p. 101.

[42] Gomez-Mejia and Balkin, p. 96.

Table 7 – Business Unit/Organizational Strategies

Business Unit Strategies (Gomez-Mejia and Balkin Typology)	Organizational Strategies
	Least Cost/Military Effectiveness
Defenders	• *"doing the best job possible in a limited area"*
Rationalization/ Maintenance	• *for example, maintaining budget share; retaining missions/roles*
	Quality Improvement/Customer Service
Analyzers	• *"seldom first-in," but "second in and cost-efficient"*
	Innovation
Prospectors	• *"first in" in new product and market areas*
Dynamic Growth	• *"conflict between resource allocation to carry out existing activities and building support for the future"*

Empirical Evidence: Compensation

Gomez-Mejia and Balkan emphasize that "[u]ltimately . . . the main concern when designing and implementing pay strategies is the extent to which these are conducive to improved firm performance." [43] Five recent studies look for linkages between compensation strategy and performance, using either "effectiveness" or "financial indicators" as measures of firm performance.

Effectiveness, because of its vagueness, is "normally measured as a perception" of managers and other stakeholders. Gomez-Mejia and Balkan refer to three of their earlier studies (1987, 1990, and 1989) to support the premise that pay strategy can be effective. The 1987 study examined 33 high technology firms and 72 traditional single-product firms. Effectiveness was "the extent to which the compensation system contributes to the achievement of organizational goals." The study found, for example, that "an incentive-based compensation strategy is more effective in high technology firms than in non-high technology firms." [44]

The 1990 study surveyed 192 human resource management executives in business units of large manufacturing firms to find the degree to which the pay system contributed to meeting the organization's performance goals. The study showed that the effectiveness of pay strategies varied as a function of their interaction with organizational strategies. [45] For example, for both a "single-product" corporate strategy and a "growth" subunit strategy, a relatively high level of incentive pay and pay for performance contributed to organizational performance as opposed to relatively higher levels of salary, benefits and job-based pay. [46]

. . . the effectiveness of pay strategies varied as a function of their interaction with organizational strategies.

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[43] Gomez-Mejia and Balkin, p. 113.

[44] Gomez-Mejia and Balkin, p. 132.

[45] Gomez-Mejia and Balkin, p. 137.

[46] Gomez-Mejia and Balkin, p. 135.

The third study, in 1989, linked compensation strategies to effectiveness as a measure of organizational performance based of the perceptions of 175 scientists, each from a different firm. [47] The study shows that pay strategies tailored to groups of workers key to the success of the organization are more effective than strategies that are not. It hypothesized that aggregate, team-based compensation would be more effective for scientists and engineers than individual-based bonuses. The scientists worked in research and development units requiring teamwork, innovation, and risk-taking. Pay effectiveness was measured by four variables: pay satisfaction and intention to leave the firm ("precursors of turnover"), and team and individual performance. Positive, statistically significant relationships were found between effectiveness measures and variable, aggregate pay incentives such as team-based bonuses.

. . . pay strategies tailored to groups of workers key to the success of the organization are more effective than strategies that are not.

Two more studies cited by Gomez-Mejia and Balkin link firms' financial performance to pay strategies. A 1990 study by Gerhart and Milkovitch of 16,000 top and middle level managers in 200 organizations linked base pay, long-term income, and proportion of bonuses to base pay to return on assets (average, yearly, and lagged). The study found that "the mix of total pay is more important than the relative level of base pay over which a firm has less discretion," and that "the greater the emphasis in pay-for-performance, the greater the firm's return on assets." [48]

A 1992 study by Gomez-Mejia sampled 243 manufacturing firms and linked the combination of compensation and organizational strategies to firm performance. The results attribute differences in performance to the fit between compensation strategies (algorithmic or experiential) and organizational strategies (classified according to defenders, prospectors, analyzers and life cycle stage). The study finds statistically significant differences in firm performance based on the fit of strategies. For example, high-performing firms classified as "prospectors" had sharply experiential pay patterns, while low-performing "prospectors" had markedly algorithmic pay strategies. [49]

The results attribute differences in performance to the fit between compensation strategies . . . and organizational strategies . . .

After their extensive investigations, Gomez-Mejia and Balkin conclude that "empirical evidence supports the theoretical expectation that compensation strategies can make a significant contribution to firm performance, whether measured perceptually or objectively." [50] They observe, however, that research on these relationships is "extremely rare," [51] and that the field is ripe for further study.

Empirical Evidence: Human Resource Management

Gomez-Mejia and Balkin offer a definition of compensation strategy that can easily be extended to describe the strategic use of other elements of human resource management: "*Compensation strategy* is the deliberate utilization of the pay system as an essential integrating mechanism through which the efforts of various subunits and individuals are directed toward the achievement of an organization's strategic objectives, subject to internal and external constraints." [52]

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[47] Gomez-Mejia and Balkin, p. 138.
[48] Gomez-Mejia and Balkin, pp. 141-142.
[49] Gomez-Mejia and Balkin, p. 145.
[50] Gomez-Mejia and Balkin, p. 146.
[51] Gomez-Mejia and Balkin, p. 146.
[52] Gomez-Mejia and Balkin, p. 35.

Huselid sought empirical support for claims in the literature that "human resource management practices can help to create a source of sustained competitive advantage, especially when they are aligned with a firm's competitive strategy." [53] Based on the degree of firms' use of ten "High Performance Work Practices," [54] Huselid tested three hypotheses about the relationship of the practices to outcomes. The practices include "extensive recruitment, selection and training procedures; formal information sharing, attitude assessment, job design, grievance procedures, and labor-management participation programs; and performance appraisal, promotion, and incentive compensation programs that recognize and reward employee merit." [55] His central hypothesis was that the presence of these factors would "diminish employee turnover and increase productivity and corporate financial performance." [56] Additionally, he hypothesized that the *internal* alignment of policies, or "complementarities or synergies" [57] among the practices, would contribute independently to these results, as would a firm's *external* alignment of High Performance Work Practices with its "competitive strategy." [58] He obtained usable survey results from 968 U.S. firms representing all major industries. Huselid found solid support for the first hypothesis, that High Performance Work Factors would improve productivity and performance; however, there was less evidence that internal fit would increase firm performance, and little evidence that external fit did so. Nonetheless, Huselid believes that "the theoretical arguments for internal and external fit remain compelling," [59] and that therefore further research is essential.

Bird and Beechler do find support for "external" fit influencing performance in their study of 64 Japanese subsidiaries in the U.S. [60] Their data show that subsidiaries with matched business and human resource management strategies [61] perform better than those with unmatched strategies in terms of human resource management-related performance measures, such as rates of promotion and turnover; however, like Huselid, they find less evidence that organizational performance overall is related to strategy alignment. It is likely, they conclude, that their approach was too simplistic; that firm performance is less affected directly by human resource management strategy alignment than indirectly through the interaction of human resource management strategies with strategies of other functional areas. [62] In fact, they observe, the concept of aligning functional and business strategies is new to managers: "[M]anagers at the firms in our sample had not yet developed a view of [human resource management] as a strategic activity and, consequently, did not see a need to align their [human resource management] strategy with the subsidiary's strategy. Yet it is clear that doing so yields benefits in terms of lower turnover rates, longer employee tenure, as well as higher levels of employee morale." [63]

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[53] Mark A. Huselid, "The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance," *Academy of Management Journal,* Vol. 38, No. 3 (June 1995), p. 636.

[54] Huselid, p. 636.

[55] Huselid, p. 636.

[56] Huselid, p. 642.

[57] Huselid, p. 643.

[58] Huselid, p. 643.

[59] Huselid, p. 668.

[60] Allan Bird and Schon Beechler, "Links Between Business Strategy and Human Resource Management Strategy in U.S.-Based Japanese Subsidiaries: An Empirical Investigation," *Journal of International Business Studies,* First Quarter, 1995, p. 23.

[61] Bird and Beechler use the Miles and Snow typology to characterize each of the 64 firms in their sample as either prospector, defender, or analyzer. They then classify each of the 64 firms in terms of three human resource management strategies: *utilizer, accumulator*, or *facilitator.* Intuitively, the accumulator strategy appears to support a defender strategy; the facilitator/analyzer and utilizer/prospector match as well. It is worth noting that human resource management practices in DoD resemble those of an accumulator strategy – it "focuses on providing skill development in an evolutionary fashion in accordance with the firm's slowly evolving human resource needs. Its concern is on the acquisition of employees perceived to possess large latent potential. Once latent potential is acquired the attention then shifts to developing ability, skill and knowledge in ways that will serve company purposes." It focuses on "the internal development of human resources over time." "The relationship between employer and employee is expected to be long term . . . the result is an emphasis on job-security and the application of compensation and promotion policies containing a strong seniority component." There is "extensive training to develop potential . . . directed at internal fit [and] biased toward on-the-job training and the development of a skill set that is firm-specific" (p. 29). See the article for more description of the strategies.

. . . the concept of aligning functional and business strategies is new to managers . . .

The empirical evidence is relatively sparse. Most evidence regarding the relationship between human resource management and organizational performance is either anecdotal or conjectural and intuitive, based on expert judgment. Where propositions have been tested, however, the results tend to either support the relationship or be inconclusive.

The Theoretical Case

A number of theoretical perspectives contribute to the case for aligning human resource policies and practices, as well. Each suggests how human resource management systems can operate to improve organizational performance. The analytic framework developed and recommended in this report is general and comprehensive, yet detailed enough to represent the important relationships each of the theoretical perspectives contributes and implies for human resource management systems. This section briefly mentions the human resource management implications of various theoretical perspectives.

The **competitive strategy** perspective views organizations in terms of their ability to cope with external competitors. "The essential task of strategy formulation is to develop approaches that allow the firm to use its resources (including compensation) in such a way that it can develop and maintain a differential advantage over other firms." [64] This perspective is closely allied with the **resource-dependence** perspective that views the most important goal of organizations as obtaining and using resources because this ability will determine its survival. [65] Further, human resource management is viewed as a potential source of sustained competitive advantage. Ulrich and Lake point out that it is not just employing the right people that is important for competitive advantage; rather it is the *process of managing* those people in a way that will create something unique to that organization. [66]

. . . it is not just employing the right people that is important for competitive advantage; rather it is the process of managing those people in a way that will create something unique to that organization.

Collis and Montgomery similarly note that the uniqueness of human interactions explains why "culture" is important to a competitive advantage obtained through people. Their twist on the resource-dependence perspective is to describe it in terms of an organization developing its "core competencies" in terms of human resources:

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[62] Bird and Beechler, p. 42.
[63] Bird and Beechler, p. 42.
[64] Gomez-Mejia and Balkin, p. 27.
[65] Gomez-Mejia and Balkin, p. 24.
[66] Ulrich and Lake, p. 40.

"No two companies are alike because no two companies have had the same set of experiences, acquired the same assets and skills, or built the same organizational cultures." [67] They suggest several tests to determine whether resources have potential to become sources of competitive advantage: *inimitability* (making it difficult for others to copy); *durability* (implications for human resource management in the uniformed services include consideration of optimal career lengths); *appropriability* (a question of who captures the value the resource creates – for the uniformed services, the implications include consideration of the value of training and also of culture, because culture is difficult to imitate); *substitutability* (the question of whether another resource can be substituted); and *competitive superiority* (as a result of having the best resource for the task). [68] Collis and Montgomery further argue that the application of these factors to human resources argues for better accounting of human resources. [69] In the military context, the argument is particularly strong because commanders often tend to view human resources as "free goods."

The **behavioral** perspective focuses on employee behavior as the mediator between strategy and firm performance; the human resource management system, therefore, plays a critical role in eliciting and controlling employees' attitudes and behaviors. [70] The behavioral perspective recognizes that organizations have diverse stakeholder groups and, as a result, organizations face both political and environmental pressures in obtaining resources from a diverse set of "external" coalitions – shareholders, regulatory agencies, suppliers and pressure groups. [71] Therefore, one of the strategic functions of the human resource management function is to "build and manage coalitions." [72] Within the organization, "the most important subunits are those that deal with uncertainty and ensure the continued supply of valued resources, while assisting the organization to adapt readily to environmental contingencies. [73] Gomez-Mejia and Balkin point out that employees whose activities are linked to environmental factors strategically important to the organization may not fit into standard job evaluation plans without negative consequences. [74] High-tech research and development firms often do recognize the importance of the research scientists to the firms' survival and profitability, and so tailor human resource management policies and practices to their needs. For example, such firms might employ "customized pay plans," avoid "mechanistic pay approaches," impose "few written policies or procedures as tools to control behavior, aggregate rewards to promote cooperation and team cohesiveness," etc. [75]

General systems theory suggests that "the [human resource management] subsystem functions to acquire, utilize, retain, and displace competencies." [76] The **role behavior** perspective suggests that the "[human resource management system] . . .

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[67] David J. Collis and Cynthia A. Montgomery, "Competing on Resources: Strategy in the 1990s," *Harvard Business Review,* Vol. 73, No. 4 (July-August 1995), p. 119.
[68] Collis and Montgomery, p. 119.
[69] Collis and Montgomery, p. 126.
[70] Wright and McMahan, pp. 303-305.
[71] Gomez-Mejia and Balkin, p. 24.
[72] Gomez-Mejia and Balkin, p. 21.
[73] Gomez-Mejia and Balkin, p. 24.
[74] Gomez-Mejia and Balkin, p. 25.
[75] Gomez-Mejia and Balkin, p. 26.
[76] Jackson and Schuler, p. 239.

is effective . . . when it communicates internally consistent expectations and evaluates performances in ways that are congruent with the system's behavioral requirements." [77] **Institutional theory** explains why institutions tend to resist change and to become similar to other organizations in the same environment. [78] **Human capital theory** suggests market conditions, unions, business strategies and technology are all important because they affect the costs of different human resource management approaches to increasing the value of human capital. [79] **Transaction costs theory** suggests organizations that require firm-specific knowledge and skills "are predicted to create internal labor markets that bind . . . employees to the organization, while organizations that do not require these skills can gain efficiencies by competing for . . . talent in an external labor market." [80] Finally, **agency theory** "appears to be particularly useful for understanding executive and managerial compensation practices, which are viewed as a means for aligning the interests of the owners of a firm . . . with the managers in whom they vest control." [81]

In addition to these broad, theory-based implications, some 300 "propositions" were found in the literature that hypothesize relationships among human resource management policy choices, individual behaviors, human resource management outputs and organizational outcomes. However, there is no existing method for examining or evaluating alternative human resource management systems in light of these propositions. The next section describes the integrated framework used as the starting point for such a model. [82]

An Integrated Human Resource Management Framework

Two generic frameworks of human resource management *systems* served as the basis for the one developed in this report. The Von Glinow *et al.* framework[83] provided one of the few integrative views of human resource management. This framework was particularly suited to a ground-up, comprehensive approach. Ulrich and Lake's framework, [84] in contrast, provided a "competency" view of human resource management. This section expands on and combines these two perspectives.

Focusing on a particular problem, Von Glinow *et al.* noted that most companies' human resource management systems have "fragmented career orientations." [85] To assist in evaluating career-oriented human resource management systems, they took a "systems view" that considers each element of a human resource management system in relation to each other element. [86] Most human resource management systems, they note, have been designed piecemeal, with the components treated as "discrete." Wright and McMahan likewise observe that "the various [human resource management] functions have evolved in relative isolation from one another, with little coordination across the disciplines." [87] In contrast, Von Glinow *et al.* provide a view of the total human resource management system within which to identify parameters of a system supportive of individuals' careers. Although their purpose was to examine the potential of career-oriented human resource management systems to improve individual and organizational effectiveness, [88] they describe the framework as a "diagnostic tool" and a "design aid." [89] As such, it can be used to describe any system in terms of fundamental elements of a human resource management system – rewards, performance evaluation, assignment, etc. Figure 4 describes their framework (with some slight modifications); the arrows in the figure represent "minimum critical" information flows necessary for a career-oriented or *any* system. [90]

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[77] Jackson and Schuler, p. 239.

[78] Jackson and Schuler, p. 240.

[79] Jackson and Schuler, p. 241.

[80] Jackson and Schuler, p. 242.

[81] Jackson and Schuler, p. 242.

[82] The human resource management strategic choice model, a systems dynamics model, is described in detail in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century – Part II: A Strategic Approach* (Washington, DC: 8th QRMC, June 30, 1997), Chapter 5.

[83] Mary Ann Von Glinow, Michael J. Driver, Kenneth Brousseau and J. Bruce Prince, "The Design of a Career Oriented Human Resource System," *Academy of Management Review*, Vol. 8, No. 1 (January 1983), pp. 23-32.

[84] Ulrich and Lake, p. 84.

[85] Von Glinow *et al.*, p. 25.

Most human resource management systems . . . have been designed piecemeal, with the components treated as "discrete."

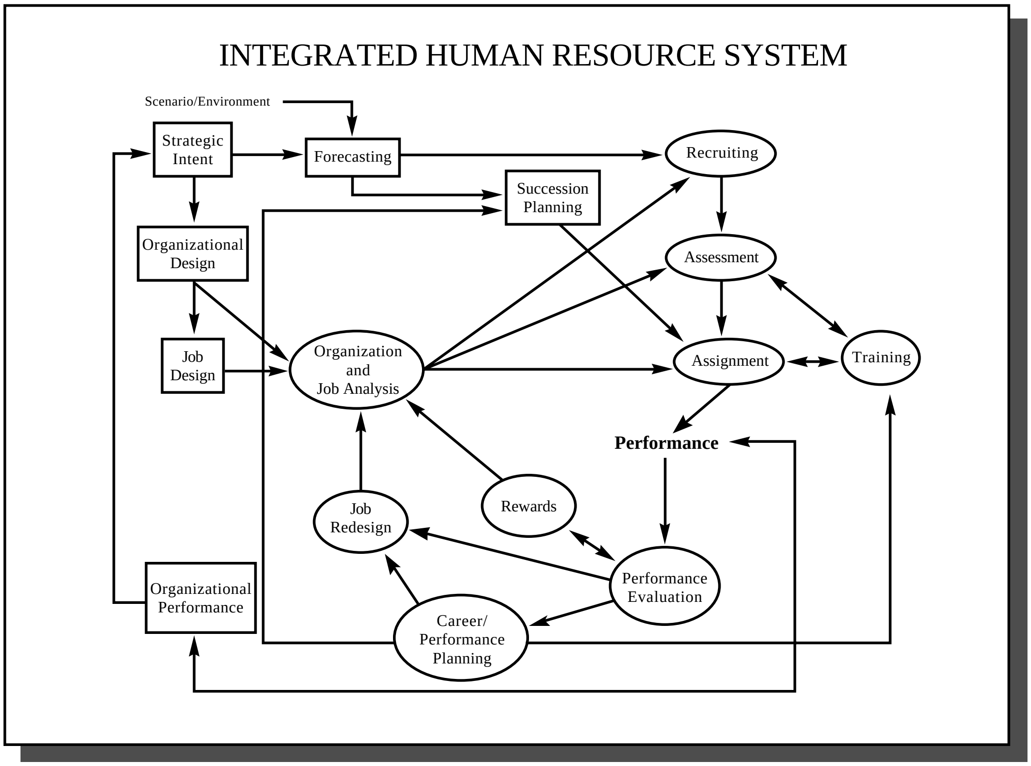
INTEGRATED HUMAN RESOURCE SYSTEM
Scenario/Environment
Strategic Intent
Forecasting
Recruiting
Succession Planning
Organizational Design
Assessment
Job Design
Organization and Job Analysis
Assignment
Training
Performance
Rewards
Job Redesign
Performance Evaluation
Organizational Performance
Career/ Performance Planning

Figure 4 – Von Glinow et al. *Framework*

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[86] Von Glinow *et al.*, p. 24.

[87] Wright and McMahan, p. 5.

[88] For an illustration of the impact of a 180-degree difference in an organization's approach to people over time, consider the case of Continental Airlines described in Hewitt Associates, "Continental Airlines Flies to the Top," *On Human Resources*, January/February 1996, pp. 3-8. The article attributes the airline's decline in quality of service and resulting bankruptcy to a human resource management strategy that excluded employees' needs and desires from consideration under a least-cost organizational strategy. Under new leadership, centered on employees' concerns, the airline has returned to profitability and become an industry leader by performance measures such as on-time departures. The article attributes the turn-around to the airline's human resource management strategy.

[89] Von Glinow *et al.*, p. 29.

[90] Von Glinow *et al.*, p. 27.

Whereas Von Glinow *et al.* take a career-based perspective, Ulrich and Lake's approach is competency-based. Ulrich and Lake proposed that human resource management can be a sustained source of competitive advantage: "Organizational capability consists not just of employing people as a competitive advantage but includes using *processes* to gain competitive advantage through people." Furthermore, "management practices account for many of the processes that affect individual behavior within an organization." [91] Ulrich and Lake argue that sustainable competitive advantage comes from using these processes creatively and strategically. They present a framework based on the idea that individuals bring unique personal competencies to an organization and, thereby, become sources of competitive advantage. Their framework, reproduced in Figure 5, shows that "to translate personal competencies into organizational capability, managers need to generate, reinforce, and sustain competencies. Six management practices enable managers to do this: rewards, selection, development, appraisal, organization design, and communication." [92] These management practices "build customer commitment, foster competitiveness by increasing the capacity of an organization to change, help managers implement business strategies, and create strategic unity" – a "shared mindset." [93]

. . . individuals bring unique personal competencies to an organization and, thereby, become sources of competitive advantage.

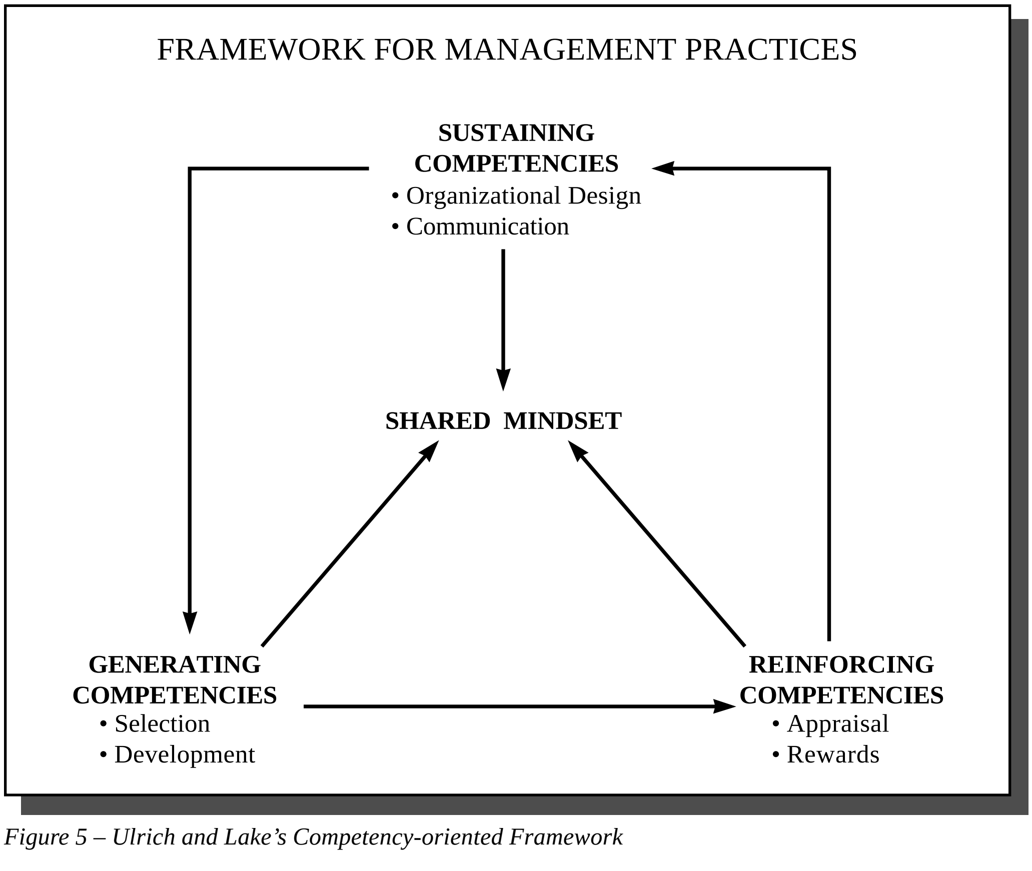
FRAMEWORK FOR MANAGEMENT PRACTICES
SUSTAINING COMPETENCIES
• Organizational Design
• Communication
SHARED MINDSET
GENERATING COMPETENCIES
• Selection
• Development
REINFORCING COMPETENCIES
• Appraisal
• Rewards

Figure 5 – Ulrich and Lake's Competency-oriented Framework

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[91] Ulrich and Lake, p. 76.
[92] Ulrich and Lake, p. 79.
[93] Ulrich and Lake, pp. 89-90.

Figure 6 combines the two frameworks. Because the combined framework captures essential relationships among elements of the human resource management system, any mechanism to align these elements can build on this framework. Several such mechanisms – core competencies, core processes, work cultures, etc. – are discussed in the following subsection.

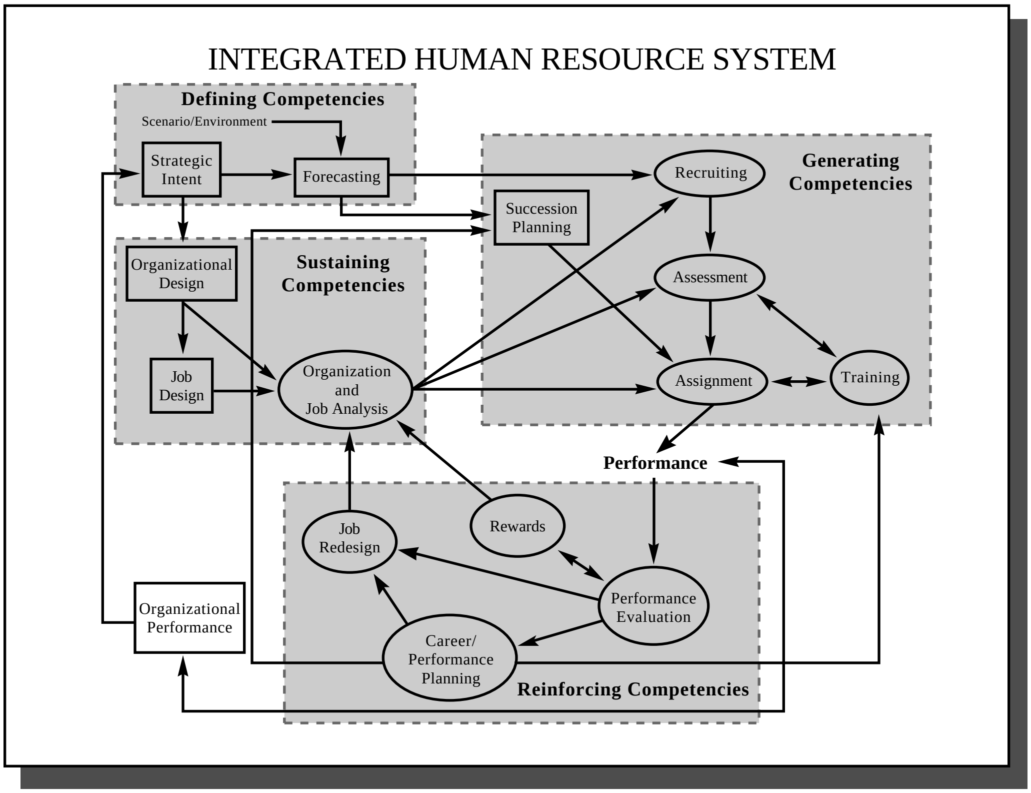
INTEGRATED HUMAN RESOURCE SYSTEM
Defining Competencies
Scenario/Environment
Strategic Intent
Forecasting
Organizational Design
Sustaining Competencies
Job Design
Organization and Job Analysis
Generating Competencies
Recruiting
Succession Planning
Assessment
Assignment
Training
Performance
Job Redesign
Rewards
Performance Evaluation
Career/ Performance Planning
Organizational Performance
Reinforcing Competencies

Figure 6 – Competency-oriented Integrated Framework

Figure 7 demonstrates this versatility by rearranging the elements into groups that represent traditional human resource management functions and that are used in the remainder of this report.

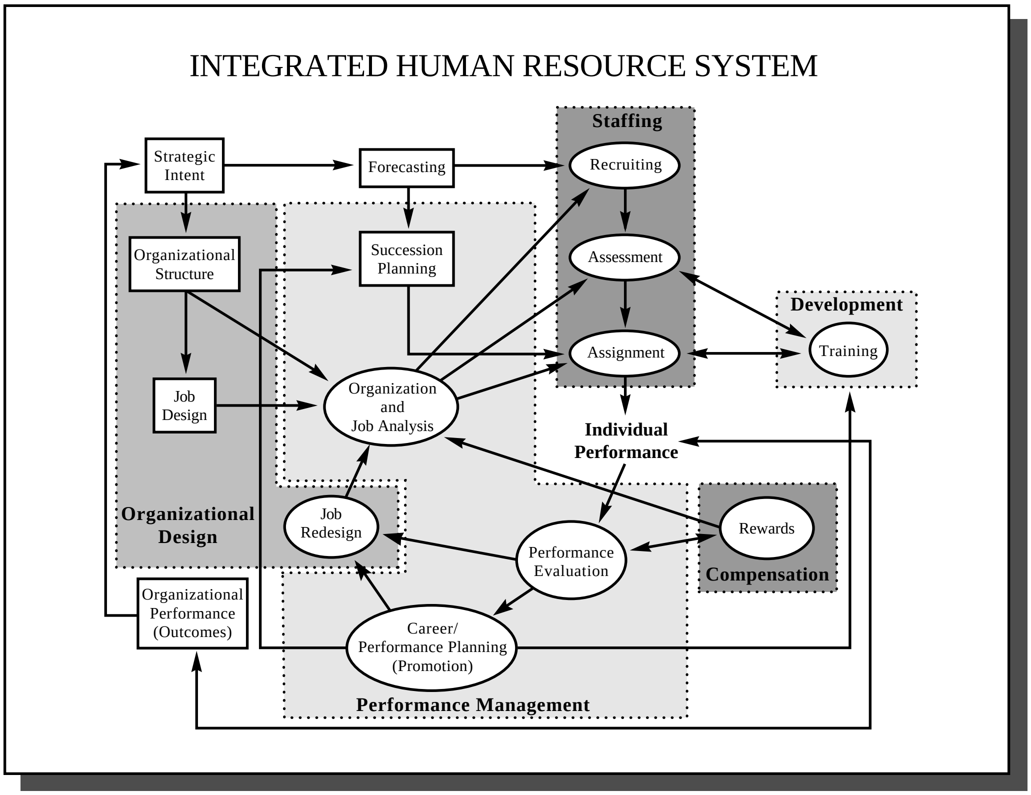
INTEGRATED HUMAN RESOURCE SYSTEM
Staffing
Strategic Intent
Forecasting
Recruiting
Organizational Structure
Succession Planning
Assessment
Development
Assignment
Training
Job Design
Organization and Job Analysis
Individual Performance
Organizational Design
Job Redesign
Rewards
Performance Evaluation
Compensation
Organizational Performance (Outcomes)
Career/ Performance Planning (Promotion)
Performance Management

Figure 7 – Traditional Function-oriented Integrated Framework

. . . although the human resource management function may often be considered a single organizational entity with a coherent purpose, this is usually not the case, particularly in large complex organizations.

Although these figures imply a close relationship *exists* among the elements of the human resource management system, in practice, this is not necessarily the case. The parts of the organization that carry out the tasks and activities within each of these elements are, more often than not, stovepiped to the very top of the human resource management function. And although the human resource management function may often be considered a single organizational entity with a coherent purpose, this is usually not the case, particularly in large complex organizations. The literature is rife with assertions that human resource management systems ought to be "aligned," or "congruent," or "integrated;" both internally and externally, as the next sidebar, entitled "Alignment and Human Resource Management," demonstrates. Horizontally, elements of the human resource management system ought to work synergistically to facilitate personnel interactions within and across subunits; vertically, human resource management strategy should support subunit and corporate-level strategies to improve the performance of the entire organization. Seeking this end state, how can it be achieved?

The following section details operational *mechanisms* for aligning the human resource management policies and practices with the organization's strategy. A later section in the report describes an operational computer *model*, developed using the framework described above, for aligning the human resource management policies and practices with the organization's strategy.

Alignment and Human Resource Management

Quotations from the Literature

"[H]uman resource management practices can help to create a source of sustained competitive advantage, especially when they are aligned with a firm's competitive strategy." [94]

"[T]here is growing recognition that the different types of [competitive] strategies require different types of [human resource] practices." [95]

"[Human resource management] practices should be the mechanisms used to focus people's attention on the major strategic issues in the organization." [96]

[S]trategic [human resource management] choices . . . need to be consistent with one another; otherwise, the human resources strategy lacks coherence, and it may fail to operate as intended." [97]

"Once a strategic plan is formulated the focus must shift to strategy implementation, a process of aligning the functions of the organization with the [subunit] strategy. In the case of human resources, the goal is to orient the choices that constitute [human resource management] practice in such a way that they result in and continuously reinforce the specific behaviors needed to achieve the organization's strategy." [98]

"There needs to be congruence between goals that organizations seek, strategies that are the most likely to attain these goals, cultures that support these strategies, and reward systems that elicit and maintain behaviors that are consonant with the appropriate competitive strategy and its supporting culture." [99]

"The [subunit] strategy, in particular, serves as a critical guide in designing organizational systems because it specifies what the [organization] wants to accomplish, how it wants to behave, and the kinds of performance and performance levels it must demonstrate to be effective. The strategy should strongly influence an organization's design and management style, both of which should drive the design of reward systems. These reward systems, in turn, help to drive performance by influencing important individual and organizational behaviors." [100]

"In successful [organizations], strategy, resource allocation, organizational structure, daily operations and systems, the work environment, and people are all adequately aligned . . . which reinforces the organization's ability to carry out its strategic task." [101]

"Whatever changes within the [organization] are adopted, they must be executed so that four key levers – strategy, operations, culture, and compensation – are totally in alignment and the entire organization is aligned with the competitive market and customer base. A change in one primary internal element is always accompanied by changes in one or more of the others." [102]

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[94] Huselid, p. 636.

[95] Wayne F. Cascio, *Managing Human Resources: Productivity, Quality of Work Life, Profits*, 4th ed. (New York, NY: McGraw-Hill, 1995), p. 569.

[96] H. John Bernardin and Joyce E. A. Russell, *Human Resource Management: An Experiential Approach* (New York, NY: McGraw-Hill, 1993), p. 39.

[97] Hax and Majluf, p. 352.

[98] Cynthia D. Fisher, Lyle F. Schoenfeldt and James B. Shaw, *Human Resource Management,* 3rd ed. (Boston, MA: Houghton Mifflin Company, 1996), p. 59.

[99] Jan P. Muczyk, "The Strategic Role of Compensation," *Human Resource Planning,* Vol. 11, No. 3 (1988), p. 225.

[100] Edward E. Lawler III, "The New Pay: A Strategic Approach," *Compensation and Benefits Review,* Vol. 27, No. 4 (July-August 1995), p. 14.

[101] Rosabeth Moss Kanter, Barry A. Stein and Todd D. Jick, *The Challenge of Organizational Change: How Companies Experience It and Leaders Guide It* (New York, NY: Free Press, 1992), p. 511.

[102] Lance A. Berger and Martin Sikora, *The Change Management Handbook: A Road Map to Corporate Transformation* (Burr Ridge, IL: Irwin Professional Publishing, 1993), p. 7.

Operational Aligning Mechanisms

Strategic human resource management requires an organization to *align* its human resource management system to support its vision and mission – and corporate and subunit strategies.

Several aligning mechanisms could have been used. The current literature is replete with mechanisms and more are being added over time. Some of the more prominent include a focus on core processes, core competencies, work cultures, business design and business (organizational) strategy. These and other mechanisms were investigated. Each has advantages and disadvantages. A particular organization or element within an organization may find a particular mechanism more useful (or congruent with the leadership perspective) than the others. All can be used to align an organization. However, the particular approach used is less important than the fact that *some* method is used.

. . . the particular approach used is less important than the fact that some method is used.

Organizational strategy is the mechanism used in this report. It has a general applicability that some of the other approaches lack. However, the selection of this mechanism over the others should not suggest that it is the "best" or "most appropriate" in any general sense. It is used for expository purposes, to demonstrate how strategic human resource management can be applied in a specific instance. The process developed for designing and analyzing human resource management systems is entirely generalizable using the other approaches delineated in this section – and others as well.

Each of the mechanisms is described briefly below; organizational strategies are discussed in more detail in *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach,* Chapter 5. [103]

Organizational Strategies

A number of authors have addressed the concept of "business strategy" to align the organization.

Porter [104] refers to generic (business) strategies that have a direct link to the elements of the profit equation (profit = revenue - cost). He suggests one strategy if an organization focuses its activities on "cost:" to be the least-cost provider of the product or service ("cost leadership"). On the other hand, an organization can enhance its revenue by differentiating its product or service. Differentiation can be accomplished by one of three strategies: to provide the highest quality, to provide the best customer service or to provide a continual stream of innovation.

Lawler's strategic approach to structuring compensation systems starts with the organization's business strategy. [105] Muczyk discusses three of the four (cost reduction, quality improvement and innovation) strategies to describe specific compensation systems designed to support these strategies. [106] Schuster and Zingheim suggest total compensation systems for several different hypothetical organizations; most of these examples suggest how a compensation system can provide enough flexibility to address several different strategies within the organization. [107]

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[103] 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part II: A Strategic Approach* (Washington, DC: 8th QRMC, June 30, 1997), Chapter 5.

[104] Porter (1980), pp. 40-41.

[105] Edward E. Lawler III, *Strategic Pay: Aligning Organizational Strategies and Pay Systems* (San Francisco, CA: Jossey-Bass Publishers, 1990), p. 36.

This is not to imply that other strategies may not serve an organization well, depending on its mission, environment, resources, developmental stage, etc. For the uniformed services, large segments of the organization engage in combat operations. For them, a strategy based on the particular context of combat is essential. The remaining segments support combat operations. The strategy that supports combat operations may not serve the support units as well, particularly in terms of enabling them to carry out their missions in the most effective manner.

An organization should design its human resource management system in order to obtain the kinds of people and the behavior required to most effectively accomplish the desired organizational strategy in the context of its mission, environment, resources and capabilities.

Organizations, within the uniformed services and outside, can – and do – choose from a variety of strategies, tailored to their individual circumstances, with which to conduct their activities. The literature generally refers to these strategies as “business strategies.” This report uses “organizational strategies” to broaden their scope and to differentiate them from “business” activities.

In designing a human resource management system, this report adopted Lawler’s general perspective: An organization should design its human resource management system in order to obtain the kinds of people and the behavior required to most effectively accomplish the desired organizational strategy in the context of its mission, environment, resources and capabilities. [108] This is referred to in this report as a “strategic contingency approach to human resource management system design.” In other words, an organizational strategy is the mechanism used by an organization to align its resources and capabilities in the context of its environment to accomplish its mission.

. . . the organizational strategy informs decisions about the kind of people required and the behavior of those people; and these, in turn, inform the strategic human resource choices made in the design of the human resource management system.

Of singular importance here is the idea that the organizational strategy informs decisions about the kind of people required and the behavior of those people; and these, in turn, inform the strategic human resource choices made in the design of the human resource management system. Using this mechanism, all decisions regarding the human resource management system should be related back to the organizational strategy (through the behaviors required); once aligned with the organizational strategy, major elements of the human resource management system should be changed only to respond to changes to the organizational strategy, the mission or the environment.

The appropriate level for an organizational strategy to be employed is that at which the subunit of the organization operates relatively independently, in a particular “market,” with a particular type of product or service as an output. These subunits are called “strategic business units” [109] in the literature; this report uses “strategic subunits” or simply “subunits.” Possible examples of strategic subunits in the uniformed services include the unified commands, major commands, the support agencies and services, the acquisition community, individual research labs, the medical community, a personnel command (as an example of a major field operating agency) and service headquarters. An organization that had only one product or service might have only one strategic subunit; a larger, more diverse organization could have many. A corporate strategy would govern the overall organization – composed of a delineated set of strategic subunits; each strategic subunit might have its own organizational strategy focused on its particular mission, resources and environment.

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[106] Muczyk, pp. 225-239.

[107] Jay R. Schuster and Patricia K. Zingheim, *The New Pay: Linking Employees and Organizational Performance* (New York, NY: Macmillan, 1992), Chapter 4.

[108] Lawler (1990), p. 36.

[109] A “strategic business unit” is generally the lowest organizational element that has authority to develop its own business strategy.

Core Processes

A second mechanism for aligning the policies and practices of an organization focuses on *core processes*. The concept of core processes is manifest in the Department of Defense as the central component of a new management process called the *Enterprise Management and Planning* system. In a nutshell, the organization would organize around core processes that deliver solutions to customers. "In successful organizations, leaders first define their mission and craft strategic directions and goals as part of a process management approach. These leaders manage performance through business processes – in process streams – as opposed to linking together functional activities." [110] "Major improvements and savings are realized by focusing on the business from a process rather than a functional perspective." [111]

"Core" processes are those processes that describe the fundamental critical activities an organization is engaged in to accomplish its mission.

"Core" processes are those processes that describe the fundamental critical activities an organization is engaged in to accomplish its mission. They are the "core" of the business – the primary reason why the business exists. Core processes distinguish themselves not only by their criticality to the business but also by the fact that they are unconstrained by the organization and cross-functional boundaries. [112]

The Department of Defense Enterprise Model proposed the following five core processes for the Department of Defense:

- Develop strategic plans
- Assess requirements
- Raise forces
- Provide forces
- Conduct operations.

The *customers* would be the combatant CINCs.

Analyzing these core processes yields the following benefits: [113]

- Enables strategic goals and objectives to be more closely linked to the activities that describe the core processes.

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[110] Sharon Caudle, *Reengineering for Results: Keys to Success from Government Experience* (Washington, DC: National Academy of Public Administration, 1994), p. xxi.

[111] U.S. General Accounting Office, *Reengineering Organizations – Results of a GAO Symposium* (GAO/NSIAD-95-34) (Washington, DC: U.S. General Accounting Office, December 1994), p. 2.

[112] Office of the Secretary of Defense, ASD(C3I), *Enterprise Management and Planning: A Guide for Managers at all Levels*, December 29, 1995, Working Draft, p. IV-4.

[113] Office of the Secretary of Defense, ASD(C3I), p. IV-13.

- Aids in identifying the end product or outcomes for which performance measures can be developed.
- Allows for the linkage of the core process activities to the budget resource allocation process.
- Links activities to processes and process outcomes thereby reducing cycle time and increasing customer satisfaction.
- Allows "value-added" activities to be determined.
- Establishes process ownership and accountability as they relate to the strategic plan and its supporting goals.

This mechanism focuses on the core processes of the organization. The human resource management system cuts across all of the core processes, thereby contributing substantially to how effectively they can be carried out. The core processes can be characterized in terms of the behaviors required to carry them out. As is described later in the report, desired behaviors (to accomplish a strategic end – in this case, effective conduct of core processes) form the basis for aligning the policies and practices of the human resource management system. Achieving different behaviors, it will be argued, requires different sets of human resource management policies and practices. From the perspective of core processes, different core processes may require different behaviors, which in turn require a different human resource management system.

. . . different core processes may require different behaviors, which in turn require a different human resource management system.

Core Competencies

A third mechanism for aligning the organization revolves around *core competencies*. Hamel and Prahalad [114] are the most notable advocates of the concept of core competencies.

Hamel and Prahalad categorize recent attempts of organizations to become more competitive as falling into three categories: restructuring, reengineering and regenerating strategies. [115] They argue the first two attempts have been only marginally effective in increasing the competitiveness of the organization. Restructuring has largely consisted of reducing head count – while attempting to maintain output levels; reengineering has focused on redesigning existing processes to operate more effectively. The Department of Defense has used restructuring extensively. Parts of the department have been reengineered. However, the authors argue that, although restructuring and reengineering have resulted in improvements in organizational efficiency, the opportunity for much greater change lies with activities that are designed to regenerate strategies. They propose that a focus on core competencies will assist an organization in regenerating strategies. [116]

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[114] Gary Hamel and C. K. Prahalad, "The Core Competence of the Corporation," *Harvard Business Review,* Vol. 68, No. 3 (May-June 1990), pp. 79-91.

[115] Gary Hamel and C. K. Prahalad, *Competing for the Future* (Boston, MA: Harvard Business School Press, 1994), pp. 123, 126.

[116] Fundamentally, this report is also recommending that strategies need to be regenerated; however, it approaches this task through the framework of "organizational strategies."

According to Hamel and Prahalad, a "core competence is a bundle of skills and technologies that enables a company to provide a particular benefit to customers." [117] They expound on core competencies as follows: [118]

- "Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies."
- "The skills that together constitute core competence must coalesce around individuals" to create a new and more robust blend of functional expertise.
- "Core competence is about harmonizing streams of technology . . . about the organization of work and the delivery of value."
- "Core competence is communication, involvement, and a deep commitment to working across organizational boundaries. It involves many levels of people and all functions."
- "Few companies are likely to build world leadership in more than five or six fundamental competencies. A company that produces a list of 20 to 30 capabilities has probably not produced a list of core competencies."

Other authors offer additional insights:

- Snyder and Ebeling [119]
    - Activities that are performed so much better than the competition and are so critical to end products or services.
    - Key activities systematically linked to the underlying business economics that drive competitive advantage; namely, that maximize the value of the company's offerings. while minimizing their cost (value-added notion).
    - Tangible, value-added activities that are performed more effectively and at lower cost than that of the competition.
    - Unique and enduring activities.
- Valentino [120]
    - Unique combinations of people, skills, technologies, and resources upon which a company's success rests. Existing skills and resources can be used to develop unforeseen market opportunities, spawn new products, and fuel organizational growth.
- Reimann [121]
    - Leverage points or gateways for exploiting industry discontinuities to create new opportunities.

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[117] Hamel and Prahalad (1994), p. 199.

[118] Hamel and Prahalad (1990), pp. 82-85.

[119] Amy V. Snyder and H. William Ebeling, Jr., "Targeting a Company's Real Core Competencies," *Journal of Business Strategy*, Vol. 13, No. 6 (November/December 1992), pp. 26-27.

[120] Daniel J. Valentino, "Do More of What You Do Best," *Across the Board*, Vol. 29, No. 11 (November 1992), pp. 53-54.

[121] Bernard C. Reimann, "Philosophers of the Strategic Renaissance," *Planning Review*, Vol. 21, No. 2 (March-April 1993), p. 51.

- "Competence monopolies in the provision of functional customer benefits."
- Successful companies concentrate their strategic architecture more on dominating core competency gateways than on eventual market or brand shares.

In advocating a core competency approach, Hamel and Prahalad prescribe management participation in five key tasks: "(1) identifying existing core competencies; (2) establishing a core competence acquisition agenda; (3) building core competencies; (4) deploying core competencies; and (5) protecting and defending core competence leadership." [122]

From a human resource management perspective, the authors highlight the need for stability of the management team charged with the development and deployment of new core competencies. This requires a consensus among the senior leadership around which competencies should be built. [123] In addition, they recommend establishing a deeply involving, cross-organizational process, identifying stewardship roles and mechanisms for allocating resources, and building a community of "carriers" of organizational core competencies. [124] In large part, these are strategic human resource management functions.

This mechanism focuses on the strategic choices of the firm, as a whole, aligning all the functions, including the human resource management function. It can dramatically achieve clarity of strategic intent. However, senior leadership must spend a significant amount of time developing and communicating an organization-wide strategic architecture that establishes objectives for competence building; consistently allocating resources to these competencies; developing a sufficient administrative infrastructure; creating a managerial culture, teamwork and capacity to change, together with a willingness to share resources to protect proprietary skills and to think long term. Most significant for the human resource management system, this approach requires creating and managing a portfolio of competencies rather than a portfolio of businesses or of processes. This could, and probably would, have significant implications on how the organization is structured. It is a "resource-based" approach to strategic human resource management.

. . . this approach requires creating and managing a portfolio of competencies rather than a portfolio of businesses or of processes.

However, the refocusing from the behaviors required to conduct the core processes to the behaviors required to identify, generate, reinforce and sustain core competencies does not affect the applicability of the underlying strategic approach recommended in this report. The behaviors required under these different mechanisms would be different; but different human resource management systems could meet these needs, once identified.

Work Cultures

A fourth mechanism for aligning the organization revolves around *work cultures.* Culture is an organizational concept that encompasses how work is done and how people are selected, developed, managed and rewarded. This mechanism is based on the work of The Hay Group.[125]

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[122] Hamel and Prahalad (1994), p. 224.
[123] Hamel and Prahalad (1994), p. 231.
[124] Hamel and Prahalad (1994), p. 235.

Work cultures have been part of organizational life for years. Certain functions have always lent themselves toward different ways of organizing work, and different ways of structuring and relating jobs. Engineers and industrial psychologists have long sought to improve the way work was performed and organized in an effort to boost productivity and profits.

Yet because most organizations were highly functional and similar in structure, most conformed to a single culture – one with a rigid hierarchy emphasizing specialization and equity. This single-culture paradigm effectively eliminated the need to diversify jobs, work, organizational structures and compensation. Eventually, however, as global competition intensified, and the demand increased for better quality, more speed to market and more intellectual labor, many organizations began to find this “one-size-fits-all” approach no longer acceptable.

The Hay Group’s research of work cultures resulted in the identification of four major cultural models operating in organizations today. These include the traditional functional culture discussed in the preceding paragraph, as well as three newer, evolving cultures: process, time-based and network. Although work culture classification is critical in this mechanism, the models should be used as a yardstick and not a micrometer. Few organizations are culturally pure – that is, multiple cultures or hybrid cultures can be found within the organization. Furthermore, other models are evolving all the time.

In the functional culture, work is designed around the specialization of individuals. It is characterized by management hierarchies in which decision-making is clearly set apart from execution (namely, managers decide, workers execute). Priorities in functional cultures are reliability and technology: performing consistently using the latest, best technology. Organizational performance is measured in terms of size, return on equity, and industry reputation. Some of the key attributes of a functional organization are being highly organized, using proven methods to serve existing markets, maintaining clear lines of authority, limiting risk and minimizing unpredictability of business results.

In the process culture, work is designed around processes for meeting obligations to customers and continually improving quality. A team approach to work dominates the culture. The division between decision-making and execution is not as clear as in the functional culture. Decisions are pushed down to the lowest level possible – often to the individual performing the work. Priorities in the process culture are customer satisfaction and reliability: giving customers what they want, and doing so consisently. Organizational performance is measured in terms of quality and customer satisfaction. Some of the key attributes of a process organization are maximizing customer satisfaction, demonstrating understanding of the customer’s point of view, delivering reliably on commitments to customers, continuously improving operations and gaining the confidence of customers. A process-based organization would be formed in line with customer markets and structured around teams. The team would most likely be cross-functional with a representative from every function that has an impact on the final product or service.

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[125] Thomas P. Flannery, David A. Hofrichter and Paul E. Platten, *People, Performance and Pay: Dynamic Compensation for Changing Organizations* (New York, NY: Free Press, 1996).

In the time-based culture, work is designed around programs and project work groups that cross functional boundaries in order to reduce cost and get products to market at an ever-quickening pace. Teams prevail in this culture; however, there is still an emphasis on individuals developing multifunctional expertise and competencies. Priorities in a time-based culture are flexibility and agility, followed by technology: being flexible and agile to adapt to changing market and customer needs, and maintaining the technology necessary to stay on the cutting edge. Organizational performance in time-based organizations is measured in terms of time-to-market and economic valued added. Some of the key attributes of a time-based organization are significantly decreasing cycle times, developing new products or services, maintaining a high sense of urgency, capitalizing on windows of opportunity and adapting quickly to changes in the business environment. A time-based organization would be built around flexible teams. The purpose of the teams would vary with changes in technology or general market strategy.

In the network culture, work is designed around alliances that bring together the necessary proficiencies and competencies to successfully complete a specific venture – for example, the development of a new product. Teams can prevail in this culture; however, they are maintained only until the venture is complete – then the component members reassemble into different teams to meet the requirements of new ventures. Priorities in a network culture are flexibility and agility, followed by customer responsiveness: being flexible and agile to adapt to changing market and customer needs. Organizational performance in network organizations is measured in terms of how effectively people work together and time to complete the venture. Some of the key attributes of a network-based organization are developing new products or services, capitalizing on windows of opportunity, establishing new ventures or new lines of business, building strategic alliances with other organizations and using resources outside the organization to get things done. A network-based organization would be built around flexible *ad hoc* teams. Teams would be formed around specific projects or products and would last only until the projects were completed.

The work culture mechanism focuses on aligning the organization design with its priorities (for example, flexibility, reliability, customer satisfaction or technology). It should be noted that any one organization may have different cultures for different segments of the organization. For example, sales (recruiting, perhaps, in the case of the uniformed services) may have more of a process culture, research and development more of a time-based culture, and finance and accounting may have more of a functional culture. The work culture mechanism requires senior leadership to, first, set the vision, goals and priorities of the organization. Second, the senior leaders must assess the culture extant in the organization. Third, they must determine the desired culture. Human resources may be enlisted to either perform the culture assessments and organizational designs themselves, or oversee their performance by an outside firm. The human resource management department should ensure the integration of the culture into the design of total remuneration, performance management, training and development, and other human resource functions.

A central component of culture, in general, and of work cultures, as described here, is behavior. Different work cultures require different behaviors; some of these are delineated in the descriptions above. As with the other approaches, once these behaviors are identified, human resource management systems can be designed to evoke them.

Business Design

A fifth mechanism for aligning the organization, business design, is propounded by Slywotzki. [126]

Slywotzki argues that organizations can improve their performance if they employ superior business designs. "A business design is the totality of how [an organization] selects its customers, defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers, and captures profit . . . [Organizations] may offer products, they may offer technology, but that offering is embedded in a comprehensive system of activities and relationships that represent the [organization's] business design." [127]

The basic argument Slywotzki presents is that an organization controls the flow of value. It can exist in three states: Value can flow into an organization, an organization can maintain a constant level of value, and value can flow out of an organization. How the organization's business design "fits" with the environment determines the flow of value. An organization whose business design is superior in satisfying customer needs experiences an inflow of value; this happens when changing customer needs are recognized early (or unmet customer needs are identified) and appropriate changes are made to capture this value. An organization whose business design is well matched to customer needs is stable. An organization that fails to identify changing customer needs, and that continues to use a business design that has become ineffective in meeting these needs, experiences value outflow. The author suggests that an organization passes through these phases and that a successful organization continues to reevaluate its business design in light of the changing environment, changing that design in order to ensure continued value inflow.

Slywotzki argues that "constructing a business design requires making critical choices along a number of dimensions. If the business design is to succeed, its elements must be aligned with customers' most important priorities. . . . they . . . must function as a coherent, mutually reinforcing whole." [128] He suggests looking at the fundamental assumptions concerning the customers (who they are and will be, how their needs are changing and will change, etc.) and at the dimensions underlying each element of the business design (for example, in organizational configuration, centralized or decentralized; pyramid or networked; and functional or lines of business) [129]

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[126] Adrian J. Slywotzki, *Value Migration: Thinking Several Steps Ahead of the Competition* (Boston, MA: Harvard Business School Press, 1996).

[127] Slywotzki, p. 4.

[128] Slywotzki, p. 25.

[129] Slywotzki, p. 27.

"While fundamental assumptions form the foundation for all business designs, other elements may be more, or less, crucial depending on the industry and the approach of the management team. . . . In labor intensive businesses, the importance of the organizational configuration and human resource policy may vastly outweigh that of R&D." [130]

This mechanism provides a strong customer focus. It is a dynamic approach that calls for continuous monitoring of the environment. It, more than any of the other mechanisms described above, emphasizes aligning all elements of the organization as a whole. It is highly congruent with a contingency approach to strategic management. It is a "resource-based" approach to strategic human resource management. And desired behaviors can be seen to underlie this mechanism as well.

The "right" strategy is contingent on the purpose, mission and vision of the organization, as well as the environment, the mission of the strategic subunit and the resources available.

Summary of Operational Aligning Mechanisms

This report uses organizational strategy as the central theme of a process for aligning the policies and practices of an organization with its strategic ends. It focuses on five organizational strategies to demonstrate the process and to provide insight into the effects of different policies and practices on the behaviors in an organization.

The "right" strategy is contingent on the purpose, mission and vision of the organization, as well as the environment, the mission of the strategic subunit and the resources available. Once selected, the organizational strategy determines the types and behavior of people; the behaviors, in turn, determine the organizational structure and the personnel management and reward systems.

There is no universal organizational strategy optimal for every strategic subunit in an organization. That said, an effective *subunit* of an organization can have but a *single* strategic focus. A subunit that attempts to be all things to all people will fail to accomplish any of its strategies well; this is not a formula for a world-class organization. [131] A single strategic focus provides a well-defined vehicle for making the difficult decisions within the subunit of an organization.

However, this should not be interpreted too narrowly. The report focuses on "pure" organizational strategies as an expository vehicle for strategic focus. No organization is likely to select a pure strategy. The "pure" organizational strategies are presented as touchstones, or reference points; real organizations will develop a unique strategic intent that may contain elements of these "pure" strategies or other strategic foci based on the specific set of behaviors desired by the organization.

A single strategic focus for an organization as large and diverse as the Department of Defense will lead to an organization that is less effective than one with a variety of strategic focuses for its subunits, all aligned under a corporate strategy to accomplish the larger organization's purpose, mission and vision. The following chapter describes the potential role of the department's human resource leadership in managing such an alignment.

A single strategic focus for an organization as large and diverse as the Department of Defense will lead to an organization that is less effective than one with a variety of strategic focuses for its subunits, all aligned under a corporate strategy to accomplish the larger organization's purpose, mission and vision.

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[130] Slywotzki, p. 27.

[131] As Porter emphasizes: "Being 'all things to all people' is a recipe for strategic mediocrity and below-average performance." Porter (1985), p. 12.

CHAPTER 4
THE ROLE OF THE HUMAN RESOURCE LEADER IN THE 21ST CENTURY

The human resource leader can serve various roles in the organization – administrator, functional expert, profit center, employee advocate, change agent, team builder, organizational architect, source of competitive advantage through people, or strategic partner or counselor. [1] In most organizations, the human resource leader performs several of these functions, with varying levels of emphasis.

This chapter considers the role of the human resource leader and of the human resource management function – what it is and where it might be heading. Although the role of human resource leaders, and of the human resource management function, may vary between different parts or levels within the organization, the perspective generally brought to bear is consistent throughout the organization. In other words, a strategic perspective, for example, may be more apparent in the senior human resource management positions in an organization, but it is unlikely to be an effective perspective if it is not understood and shared at all levels of the organization – even (perhaps especially) at the operating level. Based on the discussion in the previous chapters, this chapter argues for placing greater emphasis on the role of strategic partner.

. . . some organizations are reinventing the human resource management function with a focus on strategy.

The Focus of Human Resource Leaders

The internal focus of the human resource leader varies from organization to organization. [2] Historically, and in many organizations even today, the focus of the human resource leader has been mainly administrative in nature. In other organizations, the focus is primarily functional. Recently, in the midst of radical transformation, some organizations are reinventing the human resource management function with a focus on strategy. [3]

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[1] Arthur Yeung, Wayne Brockbank, and Dave Ulrich, “Lower Cost, Higher Value, Human Resource Function in Transformation,” *Human Resource Planning*, Vol. 17, No. 3 (1994), pp. 1-16.

[2] To help an organization determine its human resource focus, the University of Michigan has developed and conducted an extensive human resources role survey of senior executives and human resources professionals in major organizations. (David Ulrich, “Creating Strategic Partners Out of HR Professionals,” presentation given at the Society for Human Resource Management Annual Conference, August 1995.) Another way to determine the focus of human resource management in an organization is to list the various roles, evaluate to what degree these roles are performed internally by human resource personnel, and evaluate what roles are contracted out or largely performed by external consultants or researchers versus being performed internally.

[3] Edward E. Lawler III, *Strategic Human Resources Management: An Idea Whose Time Has Come*, Center for Effective Organizations Publication G95-l (277) (Los Angeles, CA: University of Southern California, January 1995).

Administrative Focus

The annual reports of many corporations assert that their human assets are their most important resource. Yet, recent studies of large corporations found the major focus of most of their human resource leaders is on administering and controlling the costs of personnel, health care and a host of other related matters. [4] From the administrative perspective, the aim of the human resource management department is to free the line managers (for example, production and sales) from having to consider these issues and to reduce “wasted” internal energy. The human resource management processes focus on such activities as establishing policies, procedures, and systems to collect and monitor information related to better managing the cost of human resources and to ensure internal equity. Missing almost entirely from the list of the human resource leader’s goals and objectives in such organizations are such key organizational performance areas as increasing human resource productivity, quality of organizational output, or the ability of the organization to bring new products and services to market.

Functional Focus

Other organizations employ a functional focus of human resource management, and the literature in this field is dominated by articles and books that argue the primary value of the human resource leader is as a functional specialist. From the functional perspective, the human resource leader requires competencies in such specialties as compensation, recruiting and training. This expertise helps an organization develop a competent work force that can execute a strategy. The human resource leader focuses on administration, benchmarking, and developing technical knowledge of the various specialties within the human resource management function. The human resource management processes focus on such activities as building performance management capabilities, succession planning and extending a human resource management network organization-wide. [5]

An emerging third focus for human resource management is on designing human resource management policies and practices to achieve organizational outcomes . . .

Strategic Focus

An emerging third focus for human resource management is on designing human resource management policies and practices to achieve organizational outcomes and to ensure the culture of the organization evolves to align or fit with the organization’s strategy and vision. This strategic focus starts with the view that the key to gaining competitive advantage in many arenas rests in the capabilities that an organization develops.[6] Developing organizational capability means establishing "internal structures and processes that influence its members to create organization-specific competencies and thus enable the [organization] to adapt to changing customer and strategic needs."[7] From the strategic perspective, the human resource leader focuses on improving the organization's competitive performance by more productively employing human resources.[8] The human resource management processes focus on such activities as developing the organization, leveraging competencies, managing learning linkages, and leadership development.[9] With a strategic focus, many of the transactional activities of the human resource management system become automated, streamlined, and reengineered, thus freeing human resource leaders for strategic challenges. When human resource leaders are focused on organizational outcomes, their primary concerns relate to ensuring (a) human resource management policies and practices are fully integrated with the strategy and the strategic needs of the firm; (b) human resource management policies and practices cohere both across policy areas and across hierarchies; and (c) line managers and employees accept, adjust, and use human resource management practices as part of their everyday work.[10]

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[4] Bureau of National Affairs, SHRM-BNA Survey No. 59, Washington, DC: BNA, 1994; and Edward E. Lawler III, Susan G. Cohen, and Lei Chang, “Strategic Human Resource Management,” in Philip Mirvis, ed., *Building the Competitive Workforce: Investing in Human Capital for Corporate Success* (New York, NY: Wiley, 1993), pp. 31-59. For many organizations compensation is one of the largest, if not the largest cost. In service organizations it often represents 70 to 80 percent of the total cost of doing business. When training costs and other human resource management costs are added to compensation costs, the total cost of human resources is an even larger portion of the organization’s total expenditures.

[5] P. Evans, *Business Strategy and Human Resource Management: A Four Stage Framework,* INSEAD Working Paper, Fontainebleau, 1994; cited in Edward E. Lawler III, *Strategic Human Resources Management: An Idea Whose Time Has Come,* Center for Effective Organizations Publication G95-1 (277) (Los Angeles, CA: University of Southern California, January 1995), Chart 2.

From the strategic perspective, the human resource leader focuses on improving the organization's competitive performance by more productively employing human resources.

A New View of the Roles of the Human Resource Leader

David Ulrich has developed a framework that translates these three foci into four roles that human resource leaders fulfill in a strategically oriented organization.[11] As suggested in Figure 8, human resource leaders must have both a day-to-day (operational) and a future (strategic) focus. In addition, they must deal with both process (structure) and people (feelings) issues. By constructing four quadrants with these two axes, desired human resource management outcomes emerge – build an efficient administrative infrastructure, increase employee commitment and capability, align human resource management to the organization's business strategy, and create a renewed organization. This leads to four clearly different roles for human resource leaders:

- Functional expert.
- Employee champion.
- Strategic partner.
- Change agent.

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[6] Edward E. Lawler III, *The Ultimate Advantage: Creating the High Involvement Organization* (San Francisco, CA: Jossey-Bass Publishers, 1992).
[7] Ulrich and Lake (1990), p. 40.
[8] Ian Clark, "HRM: Prescription, Description, and Concept," *Personnel Review*, Vol. 22, No. 4 (1993), pp. 17-25.
[9] Evans, Chart 3.
[10] Randall S. Schuler, "Strategic Human Resource Management: Linking the People with the Strategic Needs of the Business," *Organizational Dynamics*, Vol. 21, No. 1 (Summer 1992), pp. 18-32.
[11] Ulrich (August 1995).

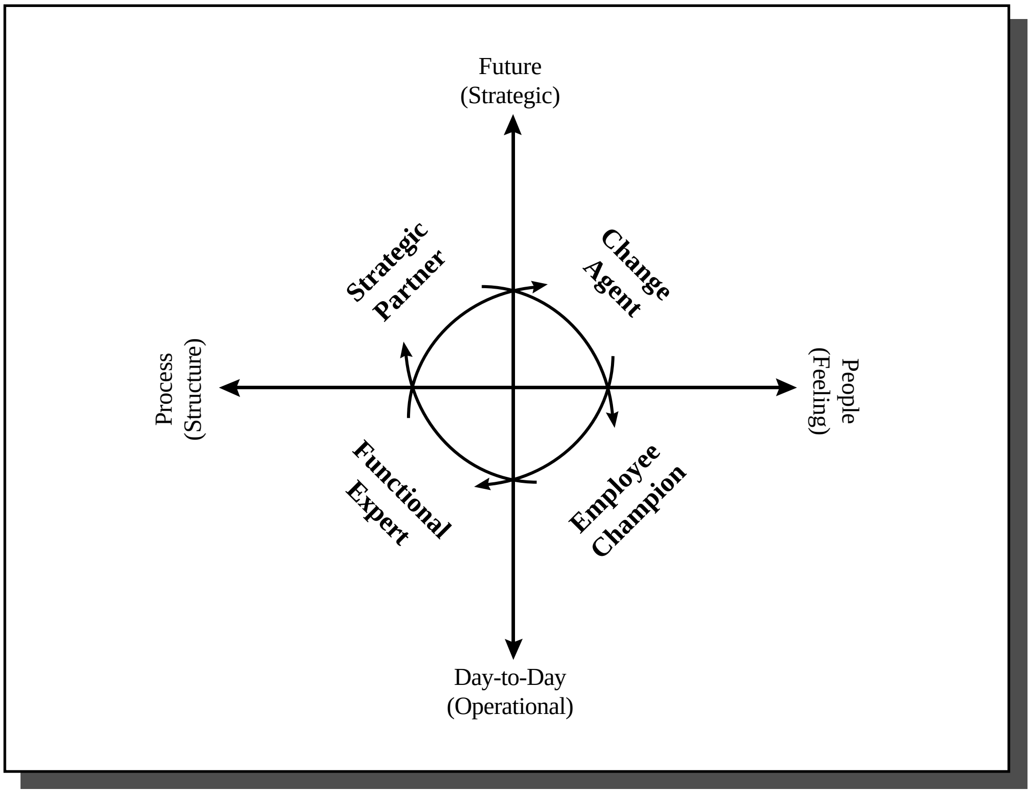
Future
(Strategic)
Strategic Partner
Change Agent
Process (Structure)
People (Feeling)
Functional Expert
Employee Champion
Day-to-Day
(Operational)

Figure 8 – Roles of Human Resource Management

Functional Expert

Flexible human resource management tools allow operational leaders and managers to develop, reinforce, and sustain the individual competencies and organizational core competencies necessary to create and maintain organizational capability and competitive advantage. The human resource leader must be able to design and provide the tools needed by the various levels of leadership and management within the organization. These tools include:

- Organizational structures (for example, decision authority, reporting relationships, job design and communication flow).
- Personnel management functions (assessing, selecting, placing, training and promoting).
- Compensation (including both extrinsic and intrinsic rewards).

Employee Champion

Employee benefits, incentives, education and team support must be in balance with the demands placed on the employee. Human resource leader involvement as employee champion is required in:

- Pay, benefits and incentives.
- Skills, education and training.

- Work environment.
- Close attention to the daily needs of employees. [12]

True human resource leader employee champions protect and nourish employees. They coach, listen and offer suggestions. Employee-championing actions are very influential in building an enduring culture within an organization. [13]

As a strategic partner, the human resource leader must develop a set of policies and practices that creates organizational unity – a shared understanding among employees and customers of how to go about accomplishing a strategy.

Strategic Partner

As a strategic partner, the human resource leader must develop a set of policies and practices that creates organizational unity – a shared understanding among employees and customers of how to go about accomplishing a strategy. [14] The human resource management strategy must identify and develop organizational and individual competencies that will yield and sustain a competitive advantage for the organization. This requires a *balanced* emphasis on both strategy formulation and execution. This report is about the processes and activities of a human resource leader engaged in the role of strategic partner.

Change Agent

An organization's capacity for change is based on individual workers' capacity. Individuals resist change when they lack information about its desirable outcomes, especially when they fear some of those outcomes may affect them negatively. The human resource leader can turn such resistance into increased capacity for change by clearly describing the current state of the organization, defining the organization's vision and desired outcomes, developing a plan for change, deploying a set of policies and practices congruent with the direction of changes, and managing the transition. According to Ulrich, "Change is about managing what we know to what we do." [15] *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part III: Managing Change* addresses organizational change in greater depth.

This report is about the processes and activities of a human resource leader engaged in the role of strategic partner.

Balance and Tension Among the Roles of the Human Resource Leader

Within an organization, the four roles of the human resource leader depicted in Figure 8 should be in balance. The strategic partner role tends to be in tension with the employee champion role. Both are important but result in different perspectives that must be developed and considered. Likewise, the change agent role tends to conflict with the functional expert's role. Again, both tend to result in different perspectives concerning key decisions. An effective human resource leader and an effective human resource management function must find the appropriate balance of these roles, a balance that best enables the alignment of human resource management policies and practices with the organization's desired strategy.

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[12] Ulrich (August 1995).
[13] Nick Debnath, "Teams Can Do Best in Empowered Organizations," Internal 8th QRMC Working Paper, 1995, p. 2.
[14] Ulrich and Lake (1990), pp. 38-39.
[15] Ulrich (August 1995).

What Do Human Resource Leaders in the Uniformed Services Do Today?

Most human resource leaders perform activities consistent with each of these roles. However, managers in organizations with a strategic focus will find more of their activities supporting particular roles (strategic partner and change agent) than managers in organizations with a traditional focus. Even so, managers in organizations with a strategic focus will continue to engage in activities that support the role of functional expert and employee champion.

Where do human resource leaders in the uniformed services fall in this taxonomy? The answer to this question is informed by considering the kinds of activities that such leaders engage in today. Although not intended to be a complete listing of the activities, Figure 9 suggests that heavy emphasis is placed on the roles of functional expert and employee champion.

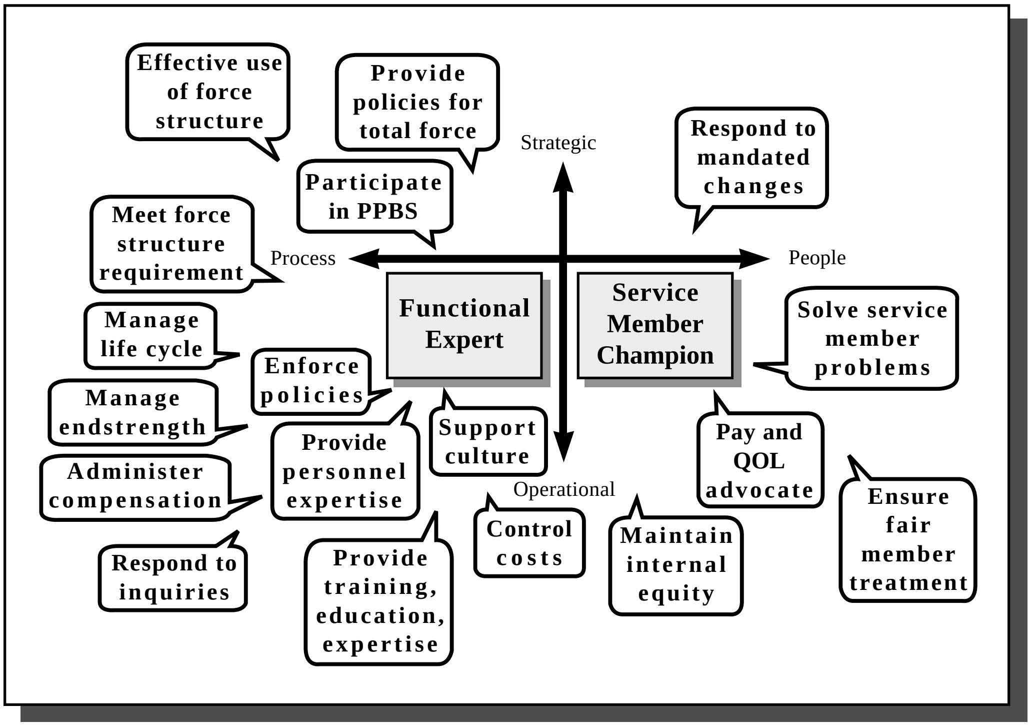
Effective use of force structure
Provide policies for total force
Strategic
Respond to mandated changes
Participate in PPBS
Meet force structure requirement
Process
People
Functional Expert
Service Member Champion
Solve service member problems
Manage life cycle
Enforce policies
Manage endstrength
Provide personnel expertise
Support culture
Pay and QOL advocate
Administer compensation
Operational
Ensure fair member treatment
Control costs
Maintain internal equity
Respond to inquiries
Provide training, education, expertise

Figure 9 – What Do Human Resource Leaders Do Today?

How might this picture look if the human resource leaders in the uniformed services emphasized more of a strategic focus? Figure 10 shows *additional* activities that such a human resource leader might engage in. A greater emphasis on a strategic focus would require activities supporting not only the role of strategic partner, but the role of functional expert, as well, activities requiring a functional expertise but oriented toward the strategic ends of the organization.

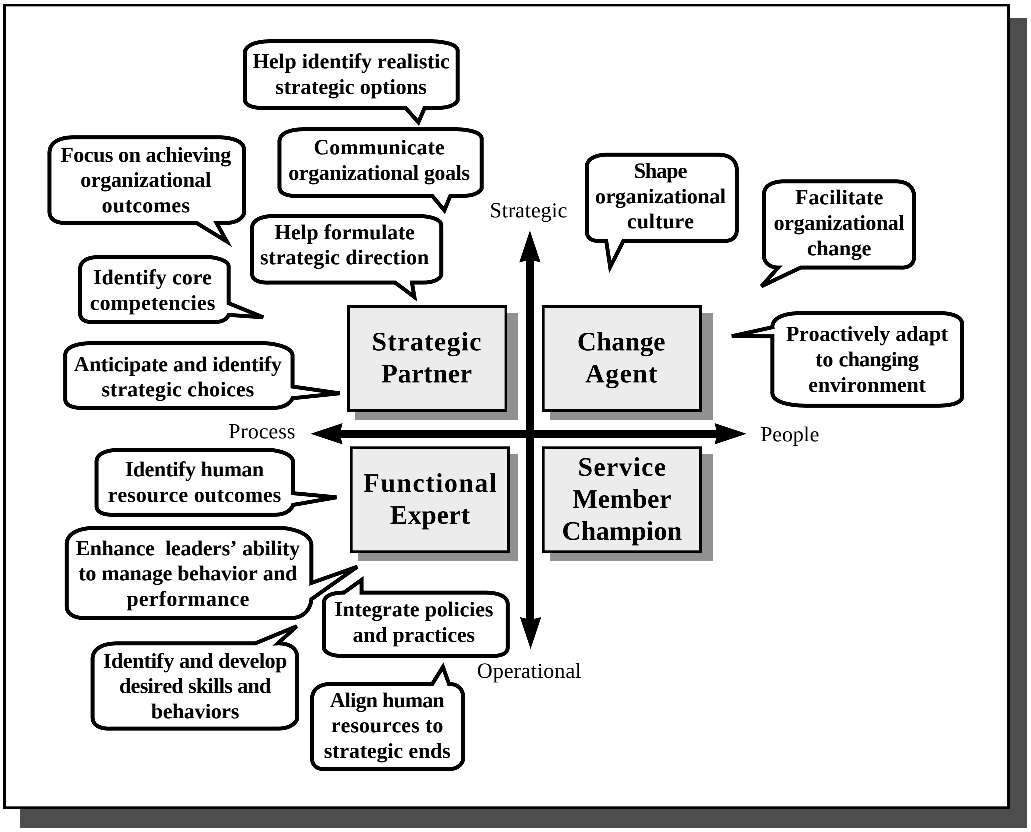
Help identify realistic strategic options
Focus on achieving organizational outcomes
Communicate organizational goals
Shape organizational culture
Facilitate organizational change
Strategic
Help formulate strategic direction
Identify core competencies
Strategic Partner
Change Agent
Proactively adapt to changing environment
Anticipate and identify strategic choices
Process
People
Identify human resource outcomes
Functional Expert
Service Member Champion
Enhance leaders' ability to manage behavior and performance
Integrate policies and practices
Identify and develop desired skills and behaviors
Operational
Align human resources to strategic ends

Figure 10 – What Else Might Human Resource Leaders Do?

By shifting emphasis toward a more strategic role for the human resource leader, the uniformed services would be among a small but growing number of successful organizations that have reoriented the focus of their human resource leaders.

By shifting emphasis toward a more strategic role for the human resource leader, the uniformed services would be among a small but growing number of successful organizations that have reoriented the focus of their human resource leaders. But this shift in emphasis – or more correctly stated, this additional emphasis – will come only as the result of engaging in additional activities. Is this worth the effort? The next chapter discusses the benefits of taking a strategic approach to human resource management.

CHAPTER 5
THE CHALLENGE: A CASE FOR STRATEGIC HUMAN RESOURCE MANAGEMENT

> I don't think anybody, especially the top leadership, discussed what they want the [military human resource management] system to do. I never remember a discussion, certainly since I've been a chief, or personnel chief, on what it was we wanted this system to do. Never.
>
> — *Admiral Jeremy M. Boorda*
> *Chief of Naval Operations*
> *United States Navy* [1]

Though other functions, such as information systems, acquisition, and finance, reach across the enterprise, no other function has the pervasive scope of effect of the human resource management function on organizational performance. This influence stems from the ability of the human resource management system to influence the organizational performance directly through its people and the ability to magnify the effectiveness of other processes and systems in the organization. Two perspectives (one resource-based, the other organization-based) capture the influence of the human resource management system, an influence materially enhanced by taking a strategic perspective.

. . . no other function has the pervasive scope of effect of the human resource management function on organizational performance.

From a *resource-based perspective*, the overall resources of an organization can be thought of as having several components: the resources directly devoted to supporting the human resource management function (generally a minuscule portion of the total resources), the actual human resources of the organization (the largest single category of resources in many organizations, including the uniformed services) the resources affected by human resources (the effectiveness of which is influenced by how people use them), and other resources. The relationship of these resources is shown notionally by the rectangles in Figure 11. [2]

Taking an operational focus, the human resource management function can clearly influence all, or nearly all, of the human assets of an organization (as well as some of the other assets in terms of how effectively they are employed). For organizations composed mainly of human assets, this may be sufficient – simply directing the functional expertise toward making the human assets more efficient. However, for organizations where human assets are but one part, perhaps an equal or lesser part, of the overall resources of the organization, how effectively human assets are employed affects the return on the other assets of the organization, as well. In the latter case (into which the uniformed services fall), a strategic focus (oriented toward motivating the behaviors needed to most effectively employ the other assets of the organization) expands the influence of the human resource management function. It requires deliberately shaping human resource management decisions to effect desired outcomes of the organization – as opposed to desired *human resource management* outcomes. This is the focus of a strategic partner role for the human resource management function.

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[1] From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.
[2] This framework is based on a conversation with Bill Blackwood, The Hay Group.

. . . a strategic focus . . . expands the influence of the human resource management function.

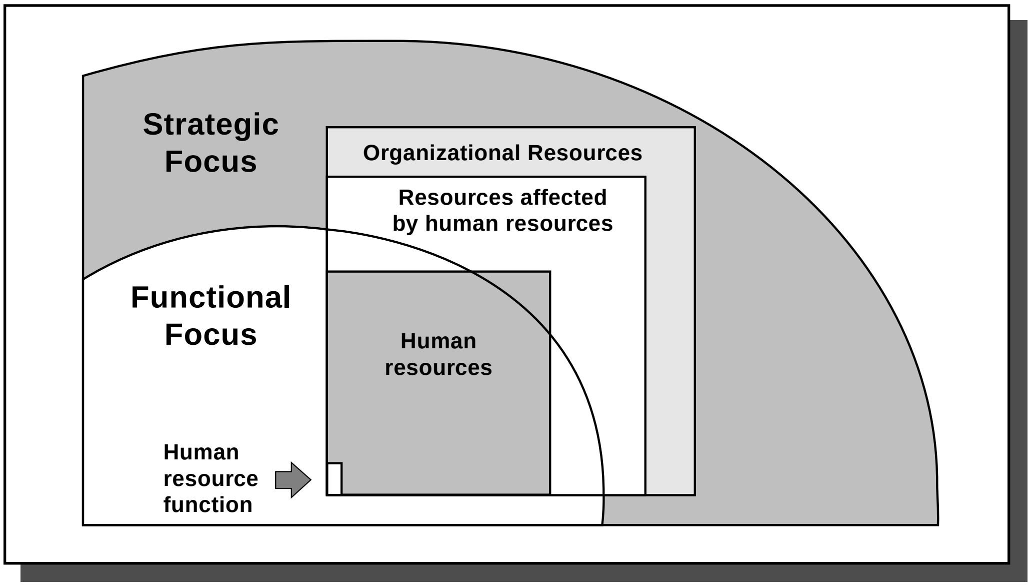
Strategic Focus
Organizational Resources
Resources affected by human resources
Functional Focus
Human resources
Human resource function

Figure 11 – The Reach and Influence of the Human Resource Management System: A Resource-based View

Figure 12, adapted from Porter, [3] illustrates the reach and influence of the human resource management system within a large organization like the Department of Defense from an *organization-based perspective*.

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[3] Porter (1985), p. 37.

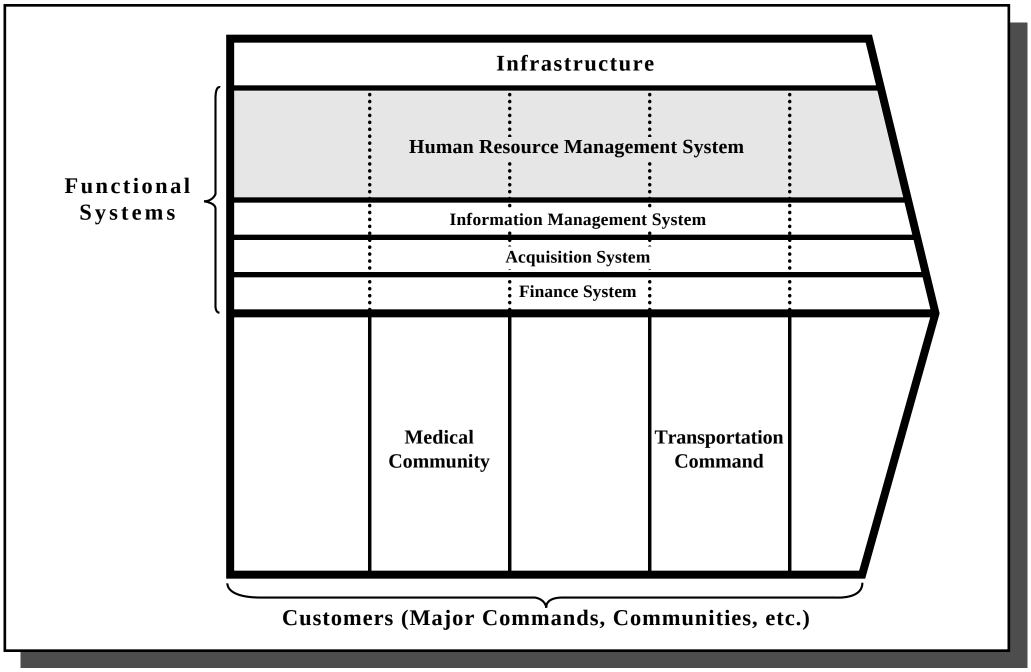
Infrastructure
Functional Systems
Human Resource Management System
Information Management System
Acquisition System
Finance System
Medical Community
Transportation Command
Customers (Major Commands, Communities, etc.)

Figure 12 – The Reach and Influence of the Human Resource Management System: An Organization-based View

The human resource management function, the information management function, the acquisition function, the finance function, and other functions exist as organizational entities themselves and influence the effectiveness of most (or all) of the specific subunits within the Department of Defense, as well as the Department of Defense as a whole.

Although other functions influence the effectiveness of the human resource management function, the relationship is not symmetrical. In other words, the influence of the human resource management function on the other functions is greater than the influence (though positive) in the other direction.

The degree of influence of the different functional areas *across the subunits* of the organization will depend on the organization. For example, in some organizations, the information management function will play a major, if not dominant, role; in other organizations, it may have a minor role; in still other organizations, the information management function may play a greater role in some parts of the organization than in others.

. . . people interact with all the systems and processes throughout the organization.

For the human resource management function, however, the influence it exerts on the effectiveness of the overall organization is much more pervasive; people interact with all the systems and processes throughout the organization. Changes, particularly major changes, to those systems and processes require different behaviors from the people who use them. If those changes in behavior are not forthcoming, the changes in systems and processes will fail to provide the improvements sought – and paid for.

Benefits of Strategic Human Resource Management

In the context of the above discussion, successful organizations *choose* a strategic approach to human resource management for three primary reasons. Strategic human resource management:

- Facilitates major change in strategic direction – by directly and indirectly influencing organizational culture.
- Makes leaders more effective – by communicating and reinforcing the commander's intent.
- Enhances organizational performance – by identifying changes in the human resource management system required to support other organizational initiatives.

Bennis and Nanus [4] define "a successful leader as one who is *able to transform an organization* when situations call for such action." Transformations are fundamental changes in strategic direction, thus falling in the first category of reasons to choose a strategic approach. Organizations resist these kinds of changes as a matter of course. Human resource management systems can inhibit change, at best, and prevent change, at worst, if they are not modified to conform with the often dramatically different behaviors required of the members of the organization. The uniformed services are considering what may be fundamental changes in direction (for example, Joint Vision 2010, Force XXI, and Air Force 2025). Through the force of leadership, these changes will undoubtedly be accomplished. However, to achieve these changes more quickly or to ensure these changes reach their full potential, the human resource management system must change. From this perspective alone, the uniformed services should choose a strategic approach to human resource management.

Human resource management systems can inhibit change, at best, and prevent change, at worst, if they are not modified to conform with the often dramatically different behaviors required of the members of the organization.

From the perspective of the second category of reasons for choosing a strategic approach, leaders, according to Ott, [5] "influence the attitudes, beliefs, and *especially the behavior* of one or more other people." How well members of the organization respond to the influence of the leader determines, in (large) part, how effective the leader is. The human resource management system can influence the behavior of the members of the organization, as well, and, if designed to achieve the behaviors sought by the leader, can free the leader to devote his or her talents to other tasks – that *systems* can not accomplish – improving overall organizational effectiveness.

The human resource management system . . . , if designed to achieve the behaviors sought by the leader, can free the leader to devote his or her talents to other tasks – that systems can not accomplish . . .

Finally, from the perspective of the third category of reasons for choosing a strategic approach, leaders are accountable for implementing changes to policies, practices, processes and systems – many of which are initiated from outside the human resource management function – designed to enhance organizational performance.

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[4] Warren G. Bennis and Burt Nanus, *Leaders: The Strategies for Taking Charge* (New York, NY: Harper & Row, 1985); cited in J. Steven Ott, ed., *Classic Readings in Organizational Behavior* (Belmount, CA: Wadsworth Publishing Company, 1989), p. 244.

[5] J. Steven Ott, ed., *Classic Readings in Organizational Behavior* (Belmount, CA: Wadsworth Publishing Company, 1989), p. 244 (emphasis added).

. . . changes (and leaders) often fail to attain the claimed benefit because of the failure (or inability) to change the human resource management system to motivate different behavior.

Although the resistance to these changes is often less than the resistance to fundamental changes in direction, these changes (and leaders) often fail to attain the claimed benefit because of the failure (or inability) to change the human resource management system to motivate different behavior.

In summary, leading effectively in the continuously changing environment – whether in the context of major change in strategic direction, of daily operations or of changes to policies and practices affecting how people interact with the processes and systems of which they are a part – demands leaders "wring every ounce of *capability* from every available source." [6] According to Lawler, [7] "[t]he human resource management function is in the best position to assess the performance capabilities of the organization and to understand how they can be enhanced and changed." A strategic approach to human resource management provides the *process* to do this by aligning the behavior of the members of the organization to any or all of these requirements.

Strategic Human Resource Management Facilitates Major Change in Strategic Direction

> The time to think about change is when you're at the top of the game, because at that time you have alternatives. Don't wait until you're on the downside and get forced into a crisis and into decisions that may not be the best.
>
> — *General Richard D. Hearney*
> *Assistant Commandant*
> *U. S. Marine Corps* [8]

The most significant change an organization can make is to embark on a new strategic direction – to design the future. Such a change can manifest itself in redefining what business the organization is in, envisioning what it will look like in the future, changing its mission, accommodating to a dramatically different environment, regenerating its core competencies, changing the culture of an organization or all or any combination of the above.

Change in strategic direction is especially difficult to accomplish because it requires, in most cases, systematic change across all the functions and systems and processes within the organization . . .

Change in strategic direction is especially difficult to accomplish because it requires, in most cases, systematic change across all the functions and systems and processes within the organization (human resource management, financial management, information management, acquisition, etc.). Failure by any one function, system or process to promote the desired organizational change seriously impedes the organization's ability to change direction. A strategic approach scrutinizes the functions, systems and processes and redesigns them, not just to remove obstacles, but to enhance the likelihood that the change will succeed. According to Lawler, [9] "[T]he most important role of the [human resource management] function is to design human resource management systems which interface effectively with the other systems in an organization in order to produce the desired organizational performance."

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[6] U.S. Joint Chiefs of Staff, *Joint Vision 2010* (Washington, DC: Joint Chiefs of Staff, July 1996), p. 8 (emphasis added).

[7] Lawler (January 1995), p. 15.

[8] From remarks given at the Forum on Strategic Human Resource Management, February 14, 1996, Washington, DC.

The strategic approach to human resource management focuses on achieving stated organizational outcomes through the powerful and effective influence of the human resource management system. Compensation, for example, is one of the most visible components of the human resource management system; changes to the way organizations compensate people grabs their attention. "In most organizations, people won't believe that you are serious about major change until you start to change the compensation system . . . changing compensation . . . is one of the keys to changing behavior." [10]

Organizational design is another visible component of the human resource management system. From an organizational perspective, the critical factor in human performance "is the structure in which we ask our people to operate. The most basic management decision we make is how to organize ourselves." [11]

Performance management, specifically appraisal, provides members of the organization explicit feedback on the value of their contribution to achieving organizational outcomes. "A performance appraisal system makes explicit what constitutes effective and efficient behavior on the part of an individual employee that is critical to implementing the strategic plan." [12]

Major change in strategic direction requires deliberate, calculated examination of fundamental choices about organizing, managing, and rewarding people, choices that determine the organization's (unit's) performance capabilities. [13]

Historically, major change in direction for the uniformed services occurred infrequently. [14] The environment was relatively stable. Many declare the environment is changing much more rapidly today and "[a]ccelerating rates of change will make the future environment more unpredictable and less stable." [15] Three current

The strategic approach to human resource management focuses on achieving stated organizational outcomes through the powerful and effective influence of the human resource management system.

Major change in strategic direction requires . . . fundamental choices about organizing, managing, and rewarding people . . .

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[9] Lawler (January 1995), p. 15.

[10] Sandra O'Neal, "Reengineering and Compensation: An Interview with Michael Hammer," American Compensation Association Journal, Vol. 5, No. 1 (Spring 1996), p. 9.

[11] Merrill A. McPeak, "Organize, Train, and Equip," in Selected Works: 1990-1994 (Maxwell Air Force Base, AL: Air University Press, August 1995), p. 59.

[12] Charles Fombrun, Noel M. Tichy and Mary Ann Devanna, Strategic Human Resource Management (New York, NY: John Wiley and Sons, 1984), p. 88.

[13] According to Edward Lawler, performance capabilities are "those competencies which an organization has that allow it to perform in strategically important ways." Lawler (January 1995), p. 3.

[14] An example of major change in direction: "The Army leadership in the 1930s had to think not just about the revolutionary implications of the tank, but also of ways to mass produce tanks, train people to repair them, and leverage off other parts of the enormous (relative to Germany and Japan) U.S. industrial base to produce a congruent force structure with a tooth-to-tail ratio that made sense. In the 1930s the Army found itself in a world where (1) technology in the form of the internal combustion engine created new opportunities for fundamental changes in military strategy and tactics; (2) international relations among states were turning to a more predatory structure with the rise of the communist and fascist dictatorships; and (3) the industrial structure of the United States was changing to permit dramatically new and increased kinds of mobilization, as well as a newly skilled type of soldier who could read, drive a truck and follow complicated orders." Paul Bracken and Raoul Henri Alcala, "Whither the RMA: Two Perspectives on Tomorrow's Army," U.S. Army War College, July 22, 1994, p. 2-3.

[15] U.S. Joint Chiefs of Staff, Joint Vision 2010, p. 8.

Department of Defense initiatives respond to changes in the environment. Each is sponsored by the most senior leaders in the Department of Defense, and each effort reflects fundamental change in the strategic direction of the Department of Defense (see Appendix III for a more detailed discussion):

- *Joint Vision 2010* paints a picture of more effective joint operations in an information rich environment.
- *Force XXI* reflects a change in operational doctrine designed to capitalize on technology and the competitive advantage it delivers on the battlefield.
- *Air Force 2025* is a developing picture of what the Air Force of the future may look like.

All three initiatives rely heavily on human resources, on people, to achieve the intended effect; all express the critical requirement for "quality" people in the respective image of the future and expand significantly on what quality will mean in the context of that image. However, none has asked: "What changes are needed in the human resource management system to accomplish this end?" A strategic approach to human resource management will move the services to these alternative futures more quickly. Such an approach is necessary if these initiatives are to realize (and, perhaps, exceed) their expectations.

The objective of a strategic approach to human resource management is to focus the behaviors of all the members directly on achieving stated organizational outcomes through the powerful and very visible influence of the human resource management system.

How Can the Human Resource Management System Facilitate Change?

To enable the human resource management system to facilitate organizational change, human resource leaders must actively participate in the organization's strategic planning process. They must help identify the desired change in direction and the desired behaviors and outcomes. The objective of a strategic approach to human resource management is to focus the behaviors of all the members directly on achieving stated organizational outcomes through the powerful and very visible influence of the human resource management system. This makes human resource management leaders valuable partners in identifying, as well as facilitating required change.

A change in organizational direction requires systematic change across all the functions, systems and processes within the organization, including the human resource management function, its systems, and its processes. Early and active participation in establishing the vision and organizational direction prepares the human resource leaders to design a human resource management system aligned with the vision, the organizational direction and strategy. Employing a strategic approach to human resource management produces a human resource management system that identifies, communicates, and reinforces the desired behaviors, enhancing the likelihood the change will succeed.

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Strategic Human Resource Management Enhances Leader Effectiveness

A strategic approach to human resource management enables leaders to decide what they want the human resource management system "to do" and to translate those decisions into day-to-day actions that influence the overall effectiveness of the uniformed services. Leaders who take a strategic approach design their organizations around the confluence of their visions and certain features of the external environment that they must accept. A strategic approach to human resource management makes it possible for leaders to design the future; and "[i]t is easier to design the future than it is to predict it." [16] To design the future, however, requires a firm idea of what the future should look like.

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How Can the Human Resource Management System Enhance Leader Effectiveness?

A strategic human resource management system continuously and systematically reinforces the commander's intent, thereby enabling leaders to redirect time and energy toward activities that only the leader can accomplish in pursuit of the organization's strategic objectives. The system provides the behavioral guidance and tangible reinforcement focused on strategic objectives. For example, an operational unit leader who wanted to increase organizational *adaptability* might make the following strategic choices in designing a human resource management system:

- A moderately flat organizational structure, which increases adaptability by decreasing layers without diminishing reliability and responsiveness.
- Holistic jobs, which rely more on self-management, responsibility and collaboration.
- Increased reliance on an external labor market (increased utilization of reserves, for example, perhaps in notably different ways).
- More balanced emphasis on both horizontal and vertical career development, which increases adaptability by providing different or multiple career paths.
- More balance between evaluative and developmental appraisals, which leads to performance feedback and encourages skill development.
- Group or team appraisals in conjunction with variable pay for teams, which encourages collaboration and conformity to group norms, which leads, in turn, to increased reliability and responsiveness.
- Stronger emphasis on group training, which reinforces collaboration and conformity to group norms, which, in turn, leads to higher levels of reliability and responsiveness.

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[16] Bracken and Alcala, p. 1.

- Heavier emphasis on paying for skill, which rewards skill development and learning, with a small component of variable pay to incentivize performance to the extent it does not detract from commitment.
- Compensation based equally on individual and group performance to incentivize skill development and learning as well as adaptability, plus a strong emphasis on internal equity.

To the extent that all the policies and practices in a strategic human resource management system are designed to achieve organizational goals, leaders are freed from tasks the system itself can perform.

To the extent that all the policies and practices in a strategic human resource management system are designed to achieve organizational goals, leaders are freed from tasks the system itself can perform.

As others suggest, leaders can rely on the system to produce and reinforce the behaviors identified as critical for organizational success. "According to General Electric's chairman, Jack Welch, if you define the right tasks (job design), put the appropriate persons in charge of them (assignment), and back them up with the right kind of reward system (rewards), you do not need to be a good manager to obtain excellent results (organizational performance)." [17] A strategic approach to human resource management enables key leaders to extend their leadership influence by designing and applying a human resource management system tailored to their specific organization's strategic objectives.

Strategic Human Resource Management Enhances Organizational Performance

Focusing all the functions, systems and processes of an organization on achieving its stated outcomes enhances overall organizational performance.

Demands for accountability have placed government activities under greater public scrutiny than ever before. The Government Performance and Results Act of 1993 and the National Performance Review most forcefully demand enhanced organizational performance and results. In recent years, the Department of Defense explored an integrated framework for strategic management, the Enterprise Management and Planning system.

The *Government Performance and Results Act* of 1993, [19] designed to reform

Congressional Intent

In passing the Government Performance and Results Act, Congress recognized its ability to make sound decisions was hampered by the lack of solid financial and performance information. Although Congress receives adequate information on what agencies are doing, it is provided little information on the results or outcomes of agency programs. Congress plans to exercise a central role in ensuring the agencies establish appropriate strategic goals, define proper performance measures, and develop useful performance information to meet both con-gressional and executive branch needs. [18]

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[17] Hax and Majluf, p. 347.

[18] U.S. General Accounting Office, *Managing for Results, Critical Actions for Measuring Performance* (GAO/T-GGD/AIMD-95-187) (Washington, DC: U.S. General Accounting Office, June 20, 1995), preface.

[19] U.S. General Accounting Office, *Transforming the Civil Service: Building the Workforce of the Future* (GAO/GGD-96-35) (Washington, DC: U.S. General Accounting Office, December 1995), p. 10.

accountability and improve the effectiveness and efficiency of programs within the federal government, mandates enhanced performance across federal agencies. This act requires federal agencies, including the Department of Defense, to submit to the Director of the Office of Management and Budget and to the Congress a five-year strategic plan no later than September 30, 1997. The strategic plan must contain, "(1) a comprehensive mission statement covering the major functions and operations of the agency; (2) general goals and objectives, including outcome-related goals and objectives, for the major functions and operations of the agency; [and] (3) a description of how the goals and objectives are to be achieved, including a description of the operational processes, skills, and technology, and the *human*, capital, information, and other *resources required to meet those goals and objectives*." [20] This act (known as "The Results Act" in Congress) also requires each agency, beginning with fiscal year 1999, to prepare an annual performance plan covering each program in the agency's budget. The plan, "shall (1) establish performance goals to define the level of performance to be achieved by a program activity; (2) express such goals in an objective, quantifiable, and measurable form . . . ; [and] (3) briefly describe the operational processes, skills and technology, and the *human*, capital, information, or other *resources required to meet the performance goals*." [21] The first reports on program performance – of success or failure to meet goals and objectives specified in the previous year's plans – are due to the President and the Congress no later than March 31, 2000.

The Government Performance and Results Act is the legislative authority for implementing the recommendations of the National Performance Review throughout the federal government.

The *National Performance Review* focused national attention on improving organizational performance across the federal government. It promotes "[a]dapting best practices, from wherever they are created or discovered," [22] to enhance organizational performance. It recently developed a classification scheme [23] for government processes based on four broad categories of processes which all government agencies perform: establishing direction, acquiring resources, providing capabilities and executing the mission. [24]

The *Enterprise Management and Planning* system is a comprehensive tool to examine fundamental issues linking warfighting requirements and supporting functions across the Department of Defense. It is based on *cross-functional, horizontal core processes and vertical integration*; it facilitates establishing performance measures and linking strategy to budget, resulting in a capability to focus all defense resources on existing and emerging missions (organizational outcomes). This strategic approach to management offers Department of Defense leaders an opportunity to practice management techniques employed by industry leaders as they reengineer their enterprises to enhance organizational performance, to more effectively and efficiently meet the needs and expectations of stakeholders. [25]

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[20] Government Performance and Results Act of 1993, P.L.103-62, Section 306 (a) (emphasis added).

[21] Government Performance and Results Act of 1993, Section 1115 (a) (emphasis added).

[22] U.S. Office of the Under Secretary of Defense, Comptroller, Memorandum for Directors of Defense Commissary Agency, Defense Finance and Accounting Service, Defense Information Systems Agency, Defense Logistics Agency, Defense Printing Service, Defense Mapping Agency, and Commander, U.S. Army Corps of Engineers, Subject: "Government Process Classification Scheme" (Washington, DC, June 5, 1996), with attachments.

[23] Current and emerging information technologies enable this framework to accelerate the sharing and search for benchmarks and best practices within and between government agencies, all focused on enhancing organizational performance.

[24] U.S. Office of the Under Secretary of Defense, Comptroller.

> Some believe that implementation of the Government Performance and Results Act will be a major change, as radical as the planning, programming, and budgeting system was in the early 1960s, in the way the Department of Defense does business. "[M]anagement style must be realigned to incorporate *output-oriented objectives* and the *cost to achieve them* . . . into the decision process. It would no longer be acceptable to state . . . the forces are ready . . . instead, the objective of the department with respect to force planning may well be . . . 'x' amount of forces, over 'y' period of time, to achieve 'z' objectives are proven to be ready and have a cost component of 'w.' [Another way to express the change is to look at a combat division. A] combat division would be funded (manned, equipped, and trained) to achieve [a set] readiness level. This requires a *specific definition of [readiness levels]*. It would no longer be sufficient to just describe miles driven or hours flown as a sufficient measure of readiness." [26]

How Can the Human Resource Management System Enhance Performance?

A strategic approach to human resource management will propel the department a long way toward meeting these legislative requirements to enhance performance.

The Government Performance and Results Act requires "a management style that incorporates output-oriented objectives and the cost of achieving them into the strategic planning and decision process." A strategic approach focuses all of the elements of the human resource management system on achieving stated, measurable organizational outcomes. A strategic approach compels human resource leaders consciously and purposefully to establish organizational design, compensation, staffing, developing and performance management policies and practices tailored to achieve the desired organizational outcomes. The approach fits exactly the legislative mandate.

A strategic approach compels human resource leaders consciously and purposefully to establish organizational design, compensation, staffing, developing and performance management policies and practices tailored to achieve the desired organizational outcomes.

Human resource leaders must partner with commanders to establish objective, quantifiable and measurable performance goals and to develop both performance measures and indicators. They must collaborate to establish human resource management policies and practices that systematically and continuously communicate the importance of these performance measures to service members. For example, performance counseling communicates performance measures (expectations) to individual service members at every level of the organization while providing constructive feedback about their performance. Reward policies and practices must reinforce performance outcomes.

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[25] The proposed Enterprise Management and Planning system is consistent with other strategic approaches to managing the enterprise examined in 8th Quadrennial Review of Military Compensation, *Rewarding, Organizing and Managing People for the 21st Century: Time for a Strategic Approach – Part I: A Strategic Perspective* (Washington, DC: 8th QRMC, June 30, 1997), Chapter 2. It relies on shared vision translated into strategies, goals and objectives and focuses on the organizing mechanism of core processes. The approach exactly fits legislative mandates established by the President and Congress requiring the uniformed services to move toward some type of strategic, total organization-wide management approach.

[26] CALIBRE Systems, work associated with *Defense Enterprise Planning and Management: A Guide for Managers*, working draft under the auspices of the Assistant Secretary of Defense, Command, Control, Communications & Intelligence (IM) (Washington, DC, March 11, 1996).

Human resource leaders play a key role in identifying skill and human capital requirements as well as specifying the operational processes required to achieve performance goals. "Organizations rarely think about their 'ability to perform as an organization' as a competitive advantage, yet, an organization's ability to organize and manage is, perhaps, the last source of sustainable competitive advantage." [27] Lawler calls "those competencies which an organization has that allow it to perform in strategically important ways, *organizational capabilities*. . . . They rest in multiple systems and in multiple parts of an organization; they rest in the management systems an organization creates and in the knowledge and understanding of employees about how the organization works and how to get things done." [28]

The human resource management system . . . exists to channel the individual potential, much of which is latent in every organization, into organizational achievement, to capitalize on the knowledge, skills, capabilities and motivations people bring to the organization.

The human resource management system is the very heart of the multiple systems in organizations. It exists to channel the individual potential, much of which is latent in every organization, into organizational achievement, to capitalize on the knowledge, skills, capabilities and motivations people bring to the organization. Research and empirical evidence cited throughout this report demonstrates that *fundamental choices about organizing the enterprise and managing people affect performance capabilities*. In other words, organization structure and design decisions (such as steep versus flat structure) and compensation and appraisal decisions (such as paying for performance versus paying for longevity and individual versus team/group evaluation) contribute directly to the kinds of individual and organizational behaviors needed.

Focusing on outcomes – a major change – requires organizations to identify different measures of success; it requires changing systems, processes and functions to focus on outcomes.

The Government Performance and Results Act requires a fundamental change in the way organizations do business; it requires the people in the department to focus on outcomes instead of the traditional focus on inputs and outputs. The preliminary draft implementation plan for the Government Performance and Results Act recognizes, "[f]or managers, the human resources dimension will become even more critical. Meeting performance targets is not a solo endeavor, and by failing to join all staff in a collaborative, participative effort to improve performance, performance is unlikely to improve." [29] Focusing on outcomes – a major change – requires organizations to identify different measures of success; it requires changing systems, processes and functions to focus on outcomes. The Act ultimately requires changes to the human resource management system to motivate the different behaviors associated with a new organizational focus on outcomes. As stated earlier, a strategic approach to human resource management focuses all the policies and practices on achieving the desired organizational outcomes. Designing pay, performance evaluation and promotion policies to motivate behaviors associated with desired organizational outcomes is key to enhancing organizational performance and a critical factor in successfully implementing the Government Performance and Results Act.

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[27] Lawler (January 1995), p. 4.

[28] Lawler (January 1995), p. 3.

[29] Government Performance and Results Act of 1993. P. L. 103-62 Implementation Plan (Preliminary Draft), August 4, 1993, p. 6.

APPENDICES

APPENDIX I
ADDITIONAL PERSPECTIVES ON STRATEGY

Various perspectives of strategy[1] enable an organization to shape its perspective of a strategic approach.

1. Strategy establishes the organizational purpose in terms of long-term objectives, action programs and resource allocation priorities. This is the traditional view. From this perspective, the organization defines it **long-term objectives;** establishes and aligns a number of **action programs** that will achieve the objectives (normally short term in nature); and allocates human, financial, technological and physical resources based on priorities that are consistent with the importance of objectives and programs.
2. Strategy defines the businesses the organization is in or intends to be in; this concept is segmentation. Segmentation is the process of visualizing the purpose of an organization and interpreting it in terms of a number of specific tasks, which are executed at different units in the organization. The classic approach to segmentation focuses on end products or services. Recently, organizations began adapting other approaches to segmentation that focus on core products, unit processes and **organizational capabilities.** These new approaches are more relevant to the uniformed services.
3. Strategy responds to external opportunities and threats, and internal strengths and weaknesses, in order to achieve a **sustainable competitive advantage**. Organizations think of competitive advantage as achieving a more favorable position than key competitors in all operations in which it participates. Strategy enables organizations both to respond to threats and opportunities presented by the environment and to adapt to changing demands from the environment. This perspective produced the concept of subunit strategy and its three areas of focus: the subunit as the central subject of analysis, key environmental trends and internal competencies that provide a way for the subunit to achieve its mission in the most effective manner.
4. Strategy defines managerial tasks with corporate, subunit and functional perspectives. The **corporate strategy** deals primarily with the definition of the overall mission of the organization, the validation of requirements emerging from subunits and functions, the identification and exploitation of linkages between distinct but related subunits and the allocation of resources with a sense of strategic priority. The **subunit strategy** includes all activities necessary to enhance the ability of each subunit to accomplish its mission. The

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[1] Hax and Majluf, p. 14.

functional strategy develops functional competencies in finance, administrative infrastructure, human resources, technology, procurement, logistics, manufacturing, distribution, marketing, sales and services needed to achieve corporate and subunit strategies.

5. Strategy develops coherent, unifying and integrative **patterns of decisions**. For example, Andrews views corporate strategy as "the pattern of decisions in a company that determines and reveals [the organization's] objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities." [2] Similarly, according to Bryson, "Everyone already has a strategy . . . pattern across purposes, policies, programs, actions, decisions, or resource allocations," and strategy is "the pattern . . . that defines what an organization is, what it does, and why." [3]
   The organization formulates comprehensive and integrative plans that ensure achievement of the basic objectives of the entire organization. Strategy in this perspective emerges from what the organization does.
6. Strategy defines the **economic and noneconomic contributions** the organization intends to make to its stakeholders. Stakeholders include everyone who receives benefits or sustains the costs that result from the actions of the enterprise (leaders, customers, communities and employees).
7. Strategy expresses the **strategic intent** of an organization. Its focus is on placing the organization in a position of leadership and establishing ways to measure its progress. It creates a sense of urgency and focuses the organization on what it takes to excel.
8. Strategy develops the **core competencies of the organization**. Core competencies cut across subunits of the organization. Therefore, this perspective places the central focus of strategy at the corporate level, specifically in terms of **developing and nurturing core competencies.**
9. Strategy invests tangible and intangible resources to develop the capabilities that ensure a sustainable competitive advantage. This perspective asserts that the sources of competitive advantage depend on the **development of resources and capabilities** in the firm. This resource-based view is the newest trend in strategic approaches and strongly informed the discussion of a strategic approach to human resource management developed in Chapter 5.

The management literature applies various labels when describing a strategic approach – for example, strategic planning, strategic orientation, futuring and strategic management. A brief discussion of these and other terms, from the perspective of various authors, is provided below.

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[2] Andrews (1980), p. 18.

[3] Bryson, p. 163.

Some argue the key to organizational success is not in developing plans but in establishing a way of thinking and acting strategically. **Thinking strategically** is the act of conceptualizing issues surrounding fundamental questions about the organization, its structure, its strategy, the capabilities of its people and its relationship to its environment. **Acting strategically** is the act of implementing decisions made as a result of strategic thinking. This report creates the template to guide the transformation of these concepts (thinking and acting strategically) into joint organizational capabilities.

Strategic planning is "a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it." It can enhance communication and participation, allow for the consideration of different interests and values and foster systematic decision making and successful implementation. [4] Also, "[s]trategic planning is a disciplined and well defined organizational effort to define a long-term direction for change, and a short-term operating framework for addressing that change. It produces fundamental decisions and actions that shape and guide an organization, its activities, and its purpose." [5] Notice the emphasis on *change.* The implied purpose of strategic planning is to prepare to address change; without change, strategic planning would be unnecessary.

"A **strategic orientation** involves developing a long-term vision and multifunctional programmatic steps to cope with the unique contingencies affecting the organization." [6] This definition indicates that a strategic approach spans functions and time.

Futuring is a thinking process that seeks to exploit the environment of an enterprise to the advantage of the enterprise even when the environment is uncertain. It does not require full control of all potential environmental influences to ensure success. It supports a versatile, adaptive, proactive, and responsive strategy formulation process by generating operational strategies for capitalizing on the unfolding environment. In addition, it develops critical indicators to guide further decisions as the organization reacts to the consequences of implementing its strategy. [7] "Futuring and planning merge at the point where we can devise an operational strategy and translate it into a goal or target. In this sense, planning becomes the tactical results of futuring, but we do not expect planning to solve the strategic puzzle for us. It is a dynamic puzzle, pieced together day by day, month by month, year by year, not assembled in advance in some document called a plan." [8]

A consistent theme in the literature is that the formulation of strategy is a continuous process. Albrecht argues that this is a significant point that distinguishes strategic planning from long-range planning. Whereas long range planning results in plans that tend to sit on the shelf, “futuring” does things that strategic planning doesn’t do: “You must have both a *vision* for your success and a *direction* for getting there.” [9]

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[4] Bryson, p. 5.

[5] John M. Bryson and Robert C Einsweiler, eds., *Strategic Planning: Threats and Opportunities for Planners* (Chicago, IL: Planners Press, American Planning Association, 1966); cited in Nancy Natoli and John Fittipaldi, "A Strategic Planning Primer: Model, Methods, and Misunderstandings," Army Environmental Policy Institute White Paper, June 1992.

[6] Gomez-Mejia and Balkin, p. 17.

[7] Karl Albrecht, *The Northbound Train: Finding the Purpose, Setting the Direction, Shaping the Destiny of Your Organization* (New York, NY: AMACOM, 1994), p. 60.

[8] Albrecht, p. 63.

Strategic management is a way of guiding the organization “that has as an ultimate objective the development of corporate values, managerial capabilities, organizational responsibilities, and administrative systems that link strategic and operational decision making, at all hierarchical levels, and across all businesses and functional lines of authority.” [10] Aligning strategic intent and operations eliminates disconnects between long-term and short-term outcomes. This process produces a solid foundation built on management style, values, beliefs, ethics and accepted behavior in the organization, making strategic thinking congruent with the organizational culture.

The literature discusses many processes for developing a strategic approach. No one process fits all organizations. The process chosen by an organization should accommodate its unique aspects and environment. “There is, of course, no one correct way to articulate the direction of an enterprise. Organizations are so vastly different in their operating environments, . . . that each needs to express its critical success concept in its own way.” [11]

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[9] Albrecht, p. viii (emphasis added).

[10] Hax and Majluf, p. 419.

[11] Albrecht, p. 64.

APPENDIX II
STRATEGIC THINKING PROCESS (TAXONOMY)

This table applies a strategic thinking process to the uniformed services, defines the elements of the process and lists some department, subunit and functional level examples.

ELEMENTS AND DEFINITIONS	EXAMPLES FROM MILITARY SOURCES
Purpose: the fundamental reason an organization exists; guides the organization for decades – up to 100 years.	Corporate: Project the power and influence of the Nation across the seas to foreign waters and shores in both peace and war. [1] Subunit (department): Maintain forces capable of responding to a wide range of crises. [2] Subunit (major command): Equip and sustain the US Army in war and peace. [3] Function: Meet the people needs of the Coast Guard and the needs of Coast Guard people. [4]
Mission: a clear, compelling overall goal; achievable, yet stretches the organization; measurable, to be achieved within a specific amount of time.	Corporate: Deter and if deterrence fails, fight and win. Subunit (major command): Develop and acquire non-major systems and equipment; provide development and acquisition support to program managers. [5] Function: Focus the power of the human resource management system on achieving stated, measurable organizational outcomes.
Vision: a vivid image of where leaders want the organization to go and what they want it to become; a picture of future change; an exhilarating statement that creates the spark, the excitement that lifts the organization out of the mundane and empowers people to change.	Corporate: A joint force – persuasive in peace, decisive in war, preeminent in conflict. [6] Subunit: Recognized as the premiere crisis response force – ever ready to project the power and influence of the United States from the sea to any foreign shore . . . first on the scene, first to fight, first to quell disturbances, and first to help . . . the Nation's force of choice – a certain force for an uncertain world. No matter what the crisis or the threat, the nation will have one thought: "Send in the Marines." [7] Function: The Coast Guard is the employer of choice; motivated and high performing Coast Guard people; organizational behavior supports the concept of Team Coast Guard; Human Resource Directorate is recognized and appreciated as a strategic partner. [8]
Corporate strategy defines the "businesses" of the enterprise and allocates resources among subunits. Subunit strategy determines how to employ its resources in its environment to achieve subunit missions. Functional strategy determines how to employ the functional competencies required to achieve subunit missions.	Corporate: Use a combination of patience and firmness to keep the Soviet Union confined to the Eurasian landmass. [9] Subunit (community): Costs and priorities for resource procurement and allocation include, to the extent feasible and practicable, burden sharing and partnering with local communities and other governmental agencies, and maximizing the benefits of BRACs and residual values of OCONUS properties. [10] Function: Deliver human resource competencies/attributes/traits/behaviors which complement other organizational (functional) systems and processes to achieve subunit goals and objectives.
Goals/Objectives: quantity and quality yardsticks that measure present and future performance of the organization.	Corporate: Achieve new levels of effectiveness in joint warfighting; achieve dominance across the range of military operations. [11] Subunit: Establish a mechanism that can identify and eliminate non-value-added activities. [12] Function: Training in various levels of joint operations occurs earlier in soldiers' careers. [13]

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[1] U.S. Department of the Navy, *Forward . . . from the Sea* (Washington, DC: Department of the Navy, 1994), p. i.

[2] U.S. Department of the Army, *FM 100-1, The Army* (Baltimore, MD: U.S. Army Publications Center, December 1991), p. 11.

[3] U.S. Department of the Army, U.S. Army Materiel Command, *Strategic Long-Range Plan* (Alexandria, VA: U.S. Army Materiel Command, July 1991), p. 1.

[4] U.S. Coast Guard, Human Resource Directorate, "Strategic Management Workshop, Executive Summary," summary slides from workshop that took place in Arlington, VA, January 23-24, 1996, p. 3.

[5] U.S. Department of the Army, U.S. Army Materiel Command, *Strategic Long-Range Plan*, p. 1.

[6] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 2.

[7] General Charles C. Krulak, *The 31st Commandant's Planning Guidance, A Marine Corps for the 21st Century* (Washington, DC: Marine Corps Association, August 1995), p. A-2.

[8] U.S. Coast Guard, Human Resource Directorate, p. 5.

[9] David Jablonsky, "Strategic Vision and Presidential Authority in the Post-Cold War Era," *Parameters: US Army War College Quarterly*, Vol. XXI, No. 4 (Winter 1991-1992), p. 6.

[10] U.S. Department of the Army, *Installations: A Stategy for the 21st Century, Our Vision!* (Washington, DC: U.S. Department of the Army, undated), p. 11.

[11] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 1.

[12] U.S. Department of the Air Force, Space and Missile Systems Center, *Total Quality Leadership Guide* (Los Angeles Air Force Base, CA: Space and Missile Systems Center, July 1992), p. 34.

[13] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5, Force XXI Operations: A Concept for the Evolution of Full-Dimensional Operations for the Strategic Army of the Early Twenty-First Century* (Ft. Monroe, VA: TRADOC, August 1994), p. 38.

APPENDIX III

APPLICATION OF HORIZONTAL STRATEGY CONCEPTS TO THE DEPARTMENT OF DEFENSE

According to Porter,[1] horizontal strategy describes how a diversified organization can coordinate across the boundaries of its distinct but interrelated component subunits to capitalize on and enhance the competitive advantage of each. He views horizontal strategy as "the essence" of what is usually called "corporate strategy." It is fairly easy to draw many parallels from his discussion to the Department of Defense for both combat and noncombat organizations. If the Department of Defense is thought of as the "corporate" level, then the services, the unified and specified commands, the defense agencies, etc., would be the "strategic subunits." Porter's discussion of the barriers to achieving interrelationships, the costs and benefits of horizontal coordination, etc., transfer readily to joint-service cooperation and operations.

Extending the analysis down one level, think of each individual service or unified command as the corporate level, and its component major commands, agencies, etc. as the business units. (And so on, within each major command, etc.) Again, parallels with Porter's discussion are easy to draw. For example, greater commonality in structure, personnel systems and cultures *within* each service than *between* different services reduces many barriers to *intra*-service interrelationships, but other barriers might still remain.

Once one has selected which level to consider the "corporate level" (the department, a service, a unified command, a service major command, etc.), horizontal strategy addresses how the corporate level coordinates the organizational strategies of its component subunits, which are analogous to private sector "business units."

Porter views coordination or alignment of human resource management policies across interrelated subunits as one of the key tools in achieving a successful horizontal strategy: "[H]orizontal human resource policies should apply to an entire [organization] or to those parts with significant interrelationships."[2] And, by implication, such commonality may be less important where significant interrelationships do not exist. Porter does not mean that, for example, the human resource management policies of the interrelated subunits need to be identical. Instead, he implies that different subunits' unique human resource management policies ideally should *reinforce* each other in supporting the overall corporate strategy. As a minimum, the policies should not conflict with each other in a way that encourages interrelated business units not to cooperate with each other!

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[1] Porter (1985), p. 319.

[2] Porter (1985), p. 406.

Porter believes the following human resource management policies and practices would contribute to a successful horizontal strategy:

- Rotating personnel among subunits – This "helps reduce cultural and procedural differences among [sub]units, creates personal relationships *that facilitate joint projects*, educates managers about areas of opportunity for interrelationships with other units, and promotes a corporate (or group) identity in addition to the [sub]unit identity." [3]
- Some organization-wide role in hiring and training – This helps "build a corporate identity and an awareness of the overall interests of the [organization]" that promotes interrelationships and coordination among subunits. He points out that such a corporate role need *not* "reduce the ability of [sub]units to hire personnel that fit their needs." [4]
- Promotion from within – This "tends to reinforce a corporate perspective, and can lead to managers [leaders] adopting a longer time horizon" that facilitates horizontal collaboration. [5] Porter specifically points out that "from within" means from *within the whole corporation*, not just from within the subunit.
- Education on interrelationship concepts – "It is vital that key managers [leaders] understand the strategic logic of interrelationships and have a language system for discussing and an analytical framework for identifying them in their own [subunits]. . . . While top management [leaders] often understand the concept of interrelationships, middle managers frequently do not and changes in their behavior will make or break the achievement of interrelationships in practice." [6]

Porter's framework suggests the following implications for the Department of Defense. Note that, within the Department of Defense today, there appear to be more mechanisms for within-service coordination than across-service coordination.

- Personnel rotation – Current service practices for rotating personnel among units within the same service (namely, intra-service) probably help promote *intra*-service identity, projects and other interrelationships. Similarly, *inter*-service exchange programs and rotating personnel through joint assignments should help promote joint-service coordination and operations. As discussed below, in both cases, changing the extent or frequency of such rotations could dampen the effectiveness of these intra- and inter-service relationships, but could also have some offsetting effects, such as providing an opportunity for smaller or larger numbers of key personnel to remain in these assignments longer and, thereby, develop greater depth.

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[3] Porter (1985), p. 406 (emphasis added).

[4] Porter (1985), p. 406.

[5] Porter (1985), p. 406.

[6] Porter (1985), p. 407.

- Hiring and training – Current service practices for service-wide hiring and training promote *intra*-service identity, interrelationships, operations, etc. Porter's framework implies that increasing joint-service coordination of hiring and training would help promote joint-service operations.
- Promoting from within (the organization as a whole):
  - Each service maintains an almost exclusively "internal labor market" at the service level, which probably promotes *intra*-service identity, operations, etc. Below the service level, however, current practices differ significantly among the services as to how rigidly they promote from within individual branches or specialties versus service-wide, especially for officers.
  - Although lateral transfers between services do occur in both officer and enlisted ranks, these are extremely rare, even at the entry level. No mechanism exists for *inter*-service promotions. Other things equal, one would expect more inter-service transfers (and promotions) to increase the effectiveness of joint-service operations and other interrelationships. Similarly, Porter's model suggests that (significant) lateral entry to "line" positions from outside the uniformed services would reduce horizontal coordination both within and among services.
- Education on interrelationship concepts – Here again, current practices appear to emphasize interrelationships *within* each service, especially among junior officers and enlisted personnel. For officers, the first significant opportunities for joint-duty assignments and exchange programs (including attending another service's professional military education programs, such as the command and general staff schools) do not usually occur until the senior O-3 level.

Although Porter does not specifically address *compensation* policies in this context, the implications are relatively straightforward. Consistent compensation policies across services, and across components within each service, should help build "corporate" identity and awareness of the overall interests of the organization, reduce cultural and procedural differences, and facilitate joint operations. Current law and policies that result in inter-service differences in compensation of personnel who are deployed together in joint operations (such as Haiti, Somalia, and Bosnia) provide examples of an apparent lack of horizontal coordination of corporate-wide human resource management policies and practices.

Coherent department and service-wide horizontal strategies would provide common reference points for assessing the benefits and costs of competing human resource management policy options, which would assist in resolving competing demands for resources in a way that would have the greatest benefit in terms of overall organizational effectiveness. At the same time, such horizontal coordination would entail some costs, including less service autonomy and identity. However, as Porter observes, "While [subunit] autonomy may be reduced in the process, the real purpose of horizontal organization is to *redefine* [sub]unit autonomy in terms more conducive to the [organization's] overall success." [7]

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[7] Porter (1985), p. 385.

Porter's discussion implies any human resource management policy change, no matter what its intent, would entail both benefits and (opportunity) costs. For example, significantly increasing emphasis on joint operations and interrelationships earlier in junior officers' training and careers would likely come at the expense of service- and career-field-specific training and experience. Decreasing intra-service personnel rotation might reduce permanent change of station costs and contribute to achieving other desirable goals (for example, family stability and unit or team cohesiveness and productivity); potential costs might include longer tours at overseas and remote or isolated locations, lower intra-service identity, etc. The horizontal strategy concept requires a weighing of both benefits and costs, rather than emphasizing one and losing sight of the other.

APPENDIX IV
STRATEGIC CHANGE INITIATIVES IN THE DEPARTMENT OF DEFENSE

This appendix describes three current strategic change initiatives in the Department of Defense. Then the appendix suggests how the human resource management system can facilitate the changes associated with the initiatives.

Joint Vision 2010

"Joint Vision 2010 is the conceptual template for how America's Armed Forces will channel the vitality and innovation of our people and leverage technological opportunities to achieve new levels of effectiveness in joint warfighting." [1]

What is the Change in Direction?

Joint Vision 2010 seeks to " . . . achieve new levels of effectiveness in joint warfighting," in the areas of "dominant maneuver, precision engagement, full dimensional protection, and focused logistics." [2] As such, in many ways, Joint Vision 2010 reflects a smooth extrapolation of today's "world-class" military toward enhanced operational performance in the future; in a number of aspects, however, it proffers significant changes in direction, particularly in terms of implications for the human resource management system. For example:

- Developing "service unique" [3] capabilities suggests that different services contribute different strengths to achieving new levels of effectiveness in joint warfighting. Different capabilities suggest the need for different systems (including human resource management systems) to support them. However, these capabilities must be aligned: "Simply to retain our effectiveness with less redundancy, we will need to wring every ounce of *capability* from every available source. That outcome can only be accomplished through a more seamless integration of service capabilities." [4]
- "The implications of technological advances . . . of improved systems integration, are both profound and complex. . . . The optimal balance between centralized and decentralized command and control will have to be carefully developed as (new information) systems are brought into the inventories." [5]

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[1] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 1.
[2] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 1.
[3] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 23.
[4] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, pp. 8-9 (emphasis added).
[5] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, pp. 13, 15.

- Joint Vision 2010 also envisions that, "logistics functions will incorporate information technologies to transition from the rigid vertical organizations of the past." [6]
- Joint Vision 2010 calls for "a responsive research, development, and acquisition process to incorporate new technologies. This process must leverage technology and management innovations originating in the private sector through responsive access to commercial developments." [7]
- "Faced with flat budgets and increasingly more costly readiness and modernization, we should not expect a return to the larger active forces of the Cold War period." [8]

The themes of high-quality people, empowerment, creativity and adaptability resonate throughout Joint Vision 2010.

- "The quality of our people is unequaled at all levels of the chain of command." And "Since the mid-1980s, this high quality has been the essence of the Armed Forces." [9]
- "Individual warfighters will be *empowered* as never before, . . . [e]ach individual warfighter carries *higher lethality* and has greater reach." [10]
- "The individual warfighter's *judgment*, *creativity*, and *adaptability* in the face of *highly dynamic situations* will be essential to the success of future joint operations." [11]
- "The human dimension including *innovative strategic and operational thinking* and *strong leadership* will be essential to achieve decisive results." [12]
- "In order to make optimum use of the technologies and operation concepts, we must carefully examine the traditional criteria governing *span of control* and *organizational layers* for the Services, commands, and Defense agencies. We will need *organizations and processes that are agile* enough to exploit emerging technologies and respond to diverse threats and enemy capabilities. As we move forward, we may require further *reductions in supervision and centralized direction*. All organizations must become *more responsive to contingencies*." [13]
- "*Increased organizational flexibility* will enhance our responsiveness." [14]
- "Turning concepts into capabilities *requires adapting our leadership, doctrine, education and training, organizations*, and material to meet the high tempo, high technology demands posed by these new concepts." [15]

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[6] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 24.
[7] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 32.
[8] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 8.
[9] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 5.
[10] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, pp. 13-15.
[11] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 27.
[12] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 28.
[13] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 31.
[14] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 31.
[15] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 27.

- "In sum, by 2010 we should be able to enhance the capabilities of our forces through technology. This will, in turn, expand our greatest advantage: the *adaptability, initiative, teamwork, and commitment* of our people at every level." [16]

Joint Vision 2010 also suggests ways in which the vision links to the human resource management system:

- "[R]ecruiting and retaining dedicated high quality people." [17]
- "[L]eadership development must begin with vigorous selection processes and extend beyond formal education and training." [18]
- "Hands-on experience in a variety of progressive assignments must stress innovation, dealing with ambiguity, and a sophisticated understanding of military art." [19]
- "[E]ducation and training programs must . . . emphasize employment of new technologies and achieving the operational concepts outlined in [*Joint Vision 2010* and] . . . provide our warfighters with an understanding of strategic concepts in the future environment where military force will be applied." [20]
- Education and training programs "must emphasize integration of joint capabilities and develop skills that increase individual and organizational effectiveness." [21]
- "[O]rganizational climate must reward critical thinking, foster competition of ideas, and reduce structural or cultural barriers to innovation." [22]

The services have historically celebrated the value of their people in fulfilling mission requirements; they speak with great confidence and pride about their "quality" people. But will this be sufficient in view of the above characterization of the future? How should "quality" be defined and measured in the world of Joint Vision 2010? Is category I-IIIA, together with possession of a high school diploma, a useful measure for quality in the world of Joint Vision 2010?

Joint Vision 2010 clearly moves beyond a focus on the generic characteristic of people (quality) – and it must if it is to be successful – toward a focus on more specific behaviors (such as judgment, creativity, adaptability, initiative, teamwork, commitment, innovative strategic and operational thinking, etc.) as a source of competitive advantage. To "channel the vitality and innovation of our people . . . to achieve new levels of effectiveness in joint warfighting" requires a fundamental change in the focus of the human resource management system. In fact, "organizations can best find competitive advantage through their ability to organize, not through having superior human resources." [23]

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[16] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 18.
[17] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 28.
[18] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 29.
[19] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 29.
[20] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 30.
[21] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 30.
[22] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 33.
[23] Lawler (January 1995), p. 8 (emphasis added).

Some postulate the current human resource management system is not designed to enable leaders to empower people; nor does it identify, communicate and reinforce creativity and adaptability as desired behaviors – at least, not as much as Joint Vision 2010 seems to require. They also infer the current human resource management system does not compensate and reward empowerment, creativity and adaptability. For example, findings reported in a recent RAND study based on focus groups and surveys with service members from various installations, indicated empowerment, creativity and adaptability did not emerge as desirable behaviors in the current environment. In fact, service members reported two closely related desirable behaviors – making difficult judgment calls and outstanding performance – are often punished. [24]

How Can the Human Resource Management System Facilitate Change?

Joint Vision 2010 clearly suggests the need to redesign organizations in line with the overall strategic direction. Changing fundamental decisions about organizational design also requires reexamination of the fundamental choices made about managing and rewarding people. Changes in technology do not automatically translate into changes in people's characteristics and behaviors – in fact, if service members are managed and rewarded in ways that continue to motivate today's behavior, the benefits of new technology and doctrine could fall far short of that sought.

This report describes a conceptual framework for leveraging, in the words of Joint Vision 2010, "the vitality and innovation of our people . . . to achieve new levels of effectiveness in warfighting." [25] The fundamental choices made regarding organizing, managing and rewarding people enable the services to develop the unique service capabilities required and to apply new operational concepts effectively.

Force XXI Army

What is the Change in Direction?

The Army is undertaking major change in strategic direction:

- Under the precepts of Force XXI, the Army is committed to "design[ing] organizations and develop[ing] capabilities that will allow it to be rapidly tailorable, rapidly expansible, strategically deployable, and effectively employable as part of a joint and multinational team to achieve decisive results in future war and OOTW (operations other than war) in all operational environments." [26]

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[24] RAND research in support of the 8th QRMC, publication forthcoming, found only two major classes of desirable behaviors that are punished. The first involves difficult judgment calls about whether to take the initiative or follow orders, and whether to be honest and loyal. The second involves outstanding performance. Outstanding performers are often give extra duty and sometimes even prevented from moving to another assignment that would be good for their career. Mark Spranca, "Selected Findings from Base Visits," briefing on RAND Research in Support of the 8th QRMC, presented to the 8th QRMC, Arlington, VA, April 26, 1996, pp. 17-19.

[25] U.S. Joint Chiefs of Staff, *Joint Vision 2010*, p. 1.

[26] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 18.

- "Force XXI calls for major philosophical, theoretical, materiel, and organizational changes-from how we think about war, to how we fight and lead on future battlefields and succeed." [27]
- Force XXI positions "soldiers and information [as] the centerpieces for future operations, . . . critical in that they permit changes in the dimensions of the battlespace and potentially dominate the battlespace. . . . By mastering information, we can potentially command operations at an operational tempo no potential enemy can match." [28]
- "The Army sees itself in a process of continuous transformation. For example, the Army of **1989** was a Cold War Army, forward deployed with a very focused mission, constrained resources, 20th century technology, and a longer planning horizon. The Army of **1995** is a power projection Army, principally based in the US with a power projection strategy and capabilities, a broad range of missions, severely constrained resources, and a shorter planning horizon. The Army of **2010** is the Force XXI Army with a flexible engagement strategy; 21st century technology; knowledge and capability based with split-based operations; improved lethality, survivability and tempo; shared situational awareness, and real time information." [29]

Force XXI multi-dimensional operations represent greatly increased scope and complexity with implications for soldiers, non-commissioned officers and commissioned officers, as illustrated in the following comparison.

WORLD WAR I INFANTRY PLATOON	**WORLD WAR II ARMORED INFANTRY PLATOON**	**FORCE XXI MECHANIZED INFANTRY PLATOON**
• ***Rifle (300m)***	• ***.50 cal vs light armor (750m)***	• ***25mm vs light armor (2500m)***
• ***Fight and move at 3 KPH***	• ***Bazooka vs armor (250m)***	• ***TOW vs armor (3750m)***
• ***Hand and arm signals***	• ***Fight at 3 KPH; move at 12 KPH***	• ***Fight and move at 30 KPH***
	• ***Radio on company net***	• ***Voice (internal/external)***
		• ***Digital (Maneuver/Fires/CSS/Intel)*** [30]

Clearly, these changes in weaponry alone communicate volumes about changing soldier requirements, which translate into changing requirements for the human resource management system, too. An anecdote illustrates the impact of advanced communications and weaponry on the organization's hierarchical design. Battle Lab officials at the Field Artillery Center "discovered sergeants were going to the colonel and suggesting ways of attacking the SS-21 launchers with Army Tactical Missile System missiles. [They] did not anticipate that kind of response." [31]

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[27] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 45.

[28] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 19.

[29] Colonel Jack Klevecz, "Force XXI Joint Venture Overview Briefing for the 8th QRMC," Briefing presented to the 8th QRMC on February 6, 1996, Arlington, VA (Army Battle Lab Integration, Technology and Concepts Directorate, Ft. Monroe, VA).

[30] Klevecz (February 6, 1996).

The Army and its personnel community have traditionally focused on "quality" soldiers, a human resource management functional outcome. When leaders talk about soldiers, they generally refer to "quality" soldiers to describe the most desirable characteristic.

The literature on Force XXI describes soldiers and leaders in a different way. "Leaders must exploit the potential to be found in military organizations that are flatter, internetted, and where *quality* soldiers with expanded and timely information are able to reach their full potential for initiative and action within the overall intent when given that opportunity." [32] Future leaders and soldiers of Force XXI will require the following characteristics and behaviors:

- "Future Army leaders . . . must have such *intuitive skills* as *vision*, *innovation*, *adaptability*, and *creativity* and the *ability to simplify complexities* and *clarify ambiguities*." [33]
- "Individual soldiers *empowered for independent action*." [34]
- "[S]oldiers with *initiative*." [35]
- Continuously informed soldiers "*contribute to the overall intent far in excess of their numbers*." [36]
- Soldiers with "as much information as commanders changes the *dynamics of leader-to-led*." [37]

"Our future Army will continue to recognize the soldier as its greatest capability and build our future operational concept around *quality* soldiers and leaders. . . . Knowledge-based operations call for great change in doctrine, training, leader development, organizations, materiel, and soldiers." [38] The following requirements stemming from Force XXI doctrine directly impact the human resource management system:

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[31] Jim Tice, "The Deep Strike Revolution: Battle Lab Adds Dimension to Warfare of the Next Century," *Army Times*, Vol. 56, No. 11 (October 9, 1995), p. 14.

[32] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39 (emphasis added).

[33] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39 (emphasis added).

[34] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 21 (emphasis added).

[35] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 20 (emphasis added).

[36] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 20 (emphasis added).

[37] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 21 (emphasis added).

[38] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 36.

- "[O]rganize around information processing and dissemination (organizational design)." [39]
- "[H]igher leader to led ratio (organizational design)." [40]
- "[M]odular [units] (organizational design), allowing . . . rapid tailoring of units to operate within any potential contingency situation in joint and multinational operations." [41]
- "[L]eaders of greater experience and rank (assignments and promotions) commanding at lower levels than ever before." [42]
- "Institutions and commanders . . . train and develop leaders who are intuitive, agile-minded, innovative, and disciplined . . . characterized by showing versatility and initiative, taking calculated risks, . . . exploiting opportunities . . . [, and] consistent[ly] building . . . cohesive teams." [43]
- Future "leaders . . . schooled in joint and multinational operations and skilled in synchronizing and harmonizing all aspects of combat and noncombat operations," must "have a keen awareness of the world and know the role of military force in that world (training)." [44]
- "Training in various levels of joint operations . . . occurs earlier in soldiers' careers." [45]
- The *Force XXI Campaign Plan* identifies "performance standards . . . for leaders: rapidly grasp changes in situations and conditions; exercise initiative by independently planning; execute doctrine-based actions (within the commander's intent) that maintain a steady focus on accomplishing the assigned operational mission (performance management)." [46]
- "Information Age technologies and continuous development and training in units and our Land Warfare University." [47]
- "[T]ask-based training to a standard under varying conditions." [48]
- "[F]ewer individual specialties (job design, compensation) for both officers and enlisted soldiers." [49]
- "Merg[e] individual, unit and self-development . . . into a seamless Army training system." [50]

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[39] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 40.
[40] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39.
[41] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 40.
[42] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39.
[43] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 40.
[44] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39.
[45] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 38.
[46] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 40.
[47] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 1.
[48] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 38.
[49] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 38.
[50] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39.

- “[I]nternetted and interconnected [installations] to facilitate both individual and collective training at all levels[; i]ndividual skill training refreshers and sustainment available to each soldier[; d]ata bases available to routinely address lessons learned from previous operations, worldwide political and demographic information, or expert individual specialty training requirements; . . . distributed interactive simulations.”[51]
- “[Continuous field environment training] for units at battalion and below where teamwork skills are rapidly perishable.”[52]
- “[F]ormation of strategic alliances (organizational and job design) between Army logistics mechanisms and civilian industry[; c]ivil sector will assume more responsibility for functions such as warehousing, maintenance, and material management.”[53]
- “Military units, augmented by an expanded number of civilians, contractor personnel, and available host nation resources, will comprise the future organizational structure of [operational logistics required to sustain joint and/or multinational campaigns].”[54]
- “[F]lexible, theater-level sustainment support activity . . . organization will consist of highly skilled and properly equipped civilian technicians, private sector contractors, and elements of active Army and reserve components (organizational design).”[55]

Based on the above description, the changes expected in the way the Army will do business in the Force XXI environment call for major changes to the human resource management system – if it is to support fully the outcomes desired under Force XXI. These changes to the human resource management system require deliberate, calculated examination of fundamental choices about organizing, managing and rewarding people; these choices, strategic choices, will determine the degree to which Force XXI – or the other services’ fundamental changes in direction – will meet or exceed expectations.

How Can the Human Resource Management System Facilitate Change?

A human resource management system aligned with strategy focuses all the people in the organization directly on achieving stated organizational outcomes through the powerful and very visible influence of the human resource management system. A strategic approach brings the full influence of the human resource management system to bear on the very culture of the organization – and the *sine qua non* of accomplishing a fundamental organizational change lies in changing the culture. The human resource management system can facilitate change by:

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[51] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39.
[52] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 39.
[53] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 28.
[54] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 28.
[55] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 29.

- Formulating direction.
- Communicating desired organization outcomes and goals.
- Vertically aligning human resource management policies and practices to organizational strategy.
- Horizontally coordinating human resource management policies and practices.
- Identifying, communicating and reinforcing desired behaviors.
- Shaping organizational culture.

"If the US Army must maintain one attitude, it is the capacity to accept new ideas and patterns of thinking." [56] In this vein, strategic human resource management is a new idea with new patterns of thinking about organizing, managing and rewarding people to achieve organizational outcomes.

The *Force XXI Campaign Plan* points out "[e]xperimentation in organizational design . . . and supporting operational concepts will be essential to evaluate and refine future concepts." [57] A strategic approach to human resource management stretches beyond organizational design to include experimentation in compensation and personnel management. All the elements of the human resource management system must be aligned to obtain the desired behavior – just as all the equipment, training, maintenance and logistics must be aligned to obtain the desire operational outcomes.

Air Force 2025

The Air Force recognizes "the future doesn't just happen. It's created by people with values, aspirations and growing expectations." [58] The Air Force is devoting significant resources to answering two strategic questions:

1. What future capabilities will the Air Force need to meet the military challenges facing the nation in 2025?
2. How does the Air Force organize, train, and equip in 2025? [59]

To address these question, the Air Force is committed to "creating a vision of the Air Force After Next."

"The most revolutionary change the Air Force faces is the rise of information technologies that are transforming everything around us. . . . When you add up these changes – in mission, in size, in resources, in threat – you find that it essentially defines a complete change in our environment. From the way we do business, to the tools of our trade, to how we conduct war, to how we plan for the future – the change we see is fundamental and far-reaching." [60] The Air Force Long-Range Planning Charter calls for "a strategic vision document which considers the full range of future concepts, to include innovative technologies, organizational and business practices, and future environments. [61] The Air Force is also "moving to an unprecedented level of joint cooperation." [62]

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[56] Bracken and Alcala, p. 2.

[57] U.S. Department of the Army, Training and Doctrine Command (TRADOC), *Pamphlet 525-5*, p. 40.

[58] Honorable Sheila E. Widnall, Secretary of the Air Force, "Today's Air Force: Dealing with Hard Realities," Remarks at the Durand Lectureship in Public Policy, Washington, DC, May 1, 1996, quoted in *Air Force Update, Your Air Force Today*, May 1996, p. 5.

[59] Clark Murdock, "Long-Range Planning Analytic Process," draft of briefing to the Air Force Board of Directors, Washington, DC, February 29, 1996, p. 9.

What is the Change in Direction?

The Air Force is embarking on a new strategic direction even before it publishes a vision of the Air Force after next. Devoting substantial resources to critically scrutinize what business the Air Force should be in, the way it does business, the tools of the trade, how it conducts war, how it plans for the future, unmistakably communicates fundamental and far-reaching change in strategic direction.

The Air Force tends to focus on technology as it contemplates the future, which, "in the end, [is] there to give the battle commander the picture he needs to make the right decision, and the connectivity he needs to get that decision carried out in accordance with his vision." [63] Information dominance means commanders gather and redistribute data in minutes throughout the theater; they see real-time action, both friendly and enemy; they retask forces to accomplish the mission, retask intelligence assets to get the right picture as the action unfolds. Information dominance requires an "investment in the human dimension to create the same sort of superiority [the Air Force has] long enjoyed in its equipment." [64]

Like Joint Vision 2010 and Force XXI, Air Force 2025 represents the same type of fundamental change in direction. As a result, it is likely that different behaviors will be required and a different human resource management system to obtain these behaviors.

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[60] Widnall, p. 1.

[61] General Ronald R. Fogleman and Honorable Sheila E. Widnall, Secretary of the Air Force, *Charter, Special Assistant to the CSAF for Long-Range Planning,* undated.

[62] Widnall, p. 3.

[63] Widnall, p. 4.

[64] Widnall, p. 4.